



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B48342

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

July 6, 2017

Woodlawn Hospital
1400 E. Ninth Street
Rochester, IN 46975

We have reviewed the audit report prepared by BKD, LLC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Woodlawn Hospital, as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Auditor' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* reports a material weakness. It appears in the Schedule of Findings and Responses.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2016 and 2015

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
December 31, 2016 and 2015

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows	10
Notes to Financial Statements.....	11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	26
Schedule of Findings and Responses.....	28

Independent Auditor's Report

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Woodlawn Hospital (Hospital), a component unit of Fulton County, Indiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Woodlawn Hospital, a component unit of Fulton County, Indiana as of December 31, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2015 financial statements, before they were restated for the matter discussed in Note 2, were audited by other auditors and their report thereon, dated June 13, 2016, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements and other knowledge we obtained during our audits of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2017, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

BKD, LLP

Fort Wayne, Indiana
June 5, 2017

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Woodlawn Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2016, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

Financial Highlights

- The Hospital's net position increased approximately \$30,000 and \$2,427,000 in 2016 and 2015, respectively. The Hospital's net position decreased approximately \$187,000 in 2014.
- Operating income decreased approximately \$2,166,000 or 75 percent in 2016 and increased approximately \$2,441,000 or 537 percent in 2015. Operating income decreased approximately \$2,166,000 or 83 percent in 2014.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is Woodlawn Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that 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. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Hospital.

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

Table 1: Assets, Liabilities and Net Position

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the balance sheets. The Hospital's net position increased by approximately \$30,000 in 2016 over 2015, and increased by approximately \$2,427,000 in 2015 over 2014, as shown in Table 1:

	2016	2015	Change 2016-2015	2014
Assets				
Current assets	\$ 29,378,862	\$ 25,862,384	\$ 3,516,478	\$ 19,994,704
Assets whose use is limited, net	1,060,422	2,382,329	(1,321,907)	1,538,110
Capital assets, net	19,753,993	19,487,840	266,153	18,762,738
Total assets	50,193,277	47,732,553	2,460,724	40,295,552
Deferred Outflows of Resources	1,219,784	1,457,886	(238,102)	1,695,989
Total assets and deferred outflows of resources	<u>\$ 51,413,061</u>	<u>\$ 49,190,439</u>	<u>\$ 2,222,622</u>	<u>\$ 41,991,541</u>
Liabilities				
Current liabilities	\$ 19,591,660	\$ 16,912,542	\$ 2,679,118	\$ 12,571,618
Long-term debt	13,077,683	13,564,272	(486,589)	13,133,030
Total liabilities	32,669,343	30,476,814	2,192,529	25,704,648
Net Position				
Invested in capital assets, net of related debt	5,443,209	4,774,969	668,240	4,703,473
Unrestricted	13,300,509	13,938,656	(638,147)	11,583,420
Total net position	18,743,718	18,713,625	30,093	16,286,893
Total liabilities and net position	<u>\$ 51,413,061</u>	<u>\$ 49,190,439</u>	<u>\$ 2,222,622</u>	<u>\$ 41,991,541</u>

Significant changes in the Hospital's total assets and deferred outflows of resources in 2016 are an increase in cash and cash equivalents of approximately \$3,341,000 and patient accounts receivable of approximately \$1,467,000 which are both attributable to increased activity related to long-term care operations. The most significant change in total liabilities is the increase in current liabilities of approximately \$3,893,000, which is also attributable to increased activity related to the long-term care operations.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Management's Discussion and Analysis
Years Ended December 31, 2016 and 2015

The most significant changes in the Hospital's 2015 assets and deferred outflows of resources were in the areas of current assets which increased approximately \$5,868,000. The changes can be attributed primarily to the addition of long-term care operations. The most significant change in the Hospital's 2015 liabilities was in the area of current liabilities, which increased approximately \$4,341,000. The change can be attributed primarily to the addition of long-term care operations.

Operating Results and Changes in Woodlawn Hospital's Net Position

Table 2: Operating Results and Changes in Net Position

In 2016, the Hospital's net position increased by approximately \$30,000 compared to an increase in net position during 2015 of approximately \$2,427,000, as shown in Table 2:

	2016	2015	Change 2016-2015	2014
Operating Revenues				
Net patient service revenue	\$ 165,156,066	\$ 121,002,606	\$ 44,153,460	\$ 90,473,774
Other operating revenues	216,985	860,396	(643,411)	1,110,827
Total operating revenues	<u>165,373,051</u>	<u>121,863,002</u>	<u>43,510,049</u>	<u>91,584,601</u>
Operating Expenses				
Salaries and wages and employee benefits	32,172,271	31,732,085	440,186	30,106,603
Supplies	7,605,056	7,300,334	304,722	7,353,912
Depreciation and amortization	1,832,154	1,732,581	99,573	1,736,662
Other operating expenses	123,033,892	78,202,429	44,831,463	51,932,802
Total operating expenses	<u>164,643,373</u>	<u>118,967,429</u>	<u>45,675,944</u>	<u>91,129,979</u>
Operating income	729,678	2,895,573	(2,165,895)	454,622
Non-operating expenses, net	<u>(699,585)</u>	<u>(468,841)</u>	<u>(230,744)</u>	<u>(641,666)</u>
Change in Net Position	30,093	2,426,732	(2,396,639)	(187,044)
Net Position, Beginning of Year	<u>18,713,625</u>	<u>16,286,893</u>	<u>2,426,732</u>	<u>16,473,937</u>
Net Position, End of Year	<u>\$ 18,743,718</u>	<u>\$ 18,713,625</u>	<u>\$ 30,093</u>	<u>\$ 16,286,893</u>

Operating Revenue

The first component of the overall change in the Hospital's net position is its operating income — generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. The Hospital was formed and is operated primarily to serve residents of Fulton County, Indiana and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Operating income in 2016 totaled approximately \$730,000, which was a decrease of approximately \$2,166,000 from operating income reported in 2015 of approximately \$2,896,000. The primary component of the changes in operating income is an increase in operating expenses of approximately \$45,676,000 from approximately \$118,967,000 in 2015 to approximately \$164,643,000 in 2016. The increase in operating expenses was partially offset by an increase in operating revenues of approximately \$43,510,000 from approximately \$121,863,000 in 2015 to approximately \$165,373,000 in 2016. Operating income in 2015 increased from approximately \$455,000 in 2014 to approximately \$2,896,000. The primary component of the change in operating income from 2014 to 2015 is an increase in operating expenses of approximately \$27,800,000 and an increase in operating revenues of approximately \$30,278,000. These increases resulted from increased long-term care operations in 2015 and 2016.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense.

The Hospital's Cash Flows

Another way to assess the financial health of a hospital is to look at the statement of cash flows.

Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

	2016	2015	Change 2016-2015	2014
Operating	\$ 4,926,768	\$ 5,837,517	\$ (910,749)	\$ 1,683,467
Noncapital financing	-	163,197	(163,197)	17,800
Capital and related financing	(2,982,126)	(2,206,717)	(775,409)	(1,842,147)
Investing	1,220,110	(2,874,978)	4,095,088	1,260,534
Change in cash and cash equivalents	<u>\$ 3,164,752</u>	<u>\$ 919,019</u>	<u>\$ 2,245,733</u>	<u>\$ 1,119,654</u>

Total cash and cash equivalents increased approximately \$3,165,000 in 2016 compared to increases of approximately \$919,000 and \$1,120,000 in 2015 and 2014, respectively. Operating activities generated cash and cash equivalents of approximately \$4,980,000 in 2016 compared to approximately \$5,838,000 and \$1,683,000 in 2015 and 2014, respectively. These changes were a result of continued collections from patients and third parties. Cash flows related to capital and related financing of approximately \$2,982,000, \$2,207,000 and \$1,842,000 during 2016, 2015 and 2014, respectively, consist mainly of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities increased cash and cash equivalents by approximately \$1,220,000 in 2016 compared to a decrease of approximately \$2,875,000 in 2015 and an increase of approximately \$1,260,000 in 2014 due to positive returns in the market on investments, purchases of investments in 2015 and the sale of certain investments in 2014.

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Capital Assets

During 2016 and 2015, the Hospital invested approximately \$1,954,000 and \$2,234,000, respectively, in capital assets. The net change in capital assets is outlined in the following table:

	2016	2015	Change 2016-2015	2014
Land and improvements	\$ 1,106,991	\$ 1,085,863	\$ 21,128	\$ 1,075,813
Buildings and improvements	27,371,282	26,898,355	472,927	26,153,720
Equipment	9,817,461	9,383,684	433,777	8,286,422
Construction in process	6,207	39,725	(33,518)	-
Total property and equipment	38,301,941	37,407,627	894,314	35,515,955
Less accumulated depreciation	18,547,948	17,919,787	628,161	16,753,217
Capital assets, net	<u>\$ 19,753,993</u>	<u>\$ 19,487,840</u>	<u>\$ 266,153</u>	<u>\$ 18,762,738</u>

Debt

Total debt decreased from approximately \$14,713,000 at December 31, 2015, to approximately \$14,311,000 in 2016 due to principal payments paid during the year offset by certain additional capital leases. Total debt increased from approximately \$14,059,000 at December 31, 2014 to approximately \$14,713,000 at December 31, 2015, due to scheduled repayments of debt offset by capital leases being entered into during the year. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

Other 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 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 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, Indiana 46975.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,070,751	\$ 5,784,092
Patient accounts receivable, net	14,904,487	14,582,811
Inventories	1,403,026	1,461,555
Estimated amounts due from third-party payers	-	109,555
Board-designated investments, current	1,150,000	1,150,000
Other current assets	2,850,598	2,774,371
Total current assets	<u>29,378,862</u>	<u>25,862,384</u>
Noncurrent Cash and Investments		
Board-designated	1,060,422	2,382,329
Total noncurrent cash and investments	<u>1,060,422</u>	<u>2,382,329</u>
Capital Assets		
Land	596,216	596,216
Depreciable capital assets, net	19,157,777	18,891,624
Total capital assets	<u>19,753,993</u>	<u>19,487,840</u>
Total assets	<u>50,193,277</u>	<u>47,732,553</u>
Deferred Outflows of Resources	<u>1,219,784</u>	<u>1,457,886</u>
Total assets and deferred outflows of resources	<u>\$ 51,413,061</u>	<u>\$ 49,190,439</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 15,315,688	\$ 13,365,688
Accrued salaries and related liabilities	2,651,353	2,398,255
Estimated amounts due to third-party payers	391,518	-
Current maturities of capital leases	572,590	520,135
Current maturities of long-term debt	660,511	628,464
Total current liabilities	<u>19,591,660</u>	<u>16,912,542</u>
Long-Term Debt and Capital Leases		
Capital leases	1,517,632	1,337,761
Long-term debt	11,560,051	12,226,511
Total long-term debt	<u>13,077,683</u>	<u>13,564,272</u>
Total liabilities	<u>32,669,343</u>	<u>30,476,814</u>
Net Position		
Invested in capital assets, net of related debt	5,443,209	4,774,969
Unrestricted	13,300,509	13,938,656
Total net position	<u>18,743,718</u>	<u>18,713,625</u>
Total liabilities and net position	<u>\$ 51,413,061</u>	<u>\$ 49,190,439</u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$3,341,196, 2015 - \$4,674,144	\$ 165,156,066	\$ 121,002,606
Other operating revenue	216,985	860,396
Total operating revenues	<u>165,373,051</u>	<u>121,863,002</u>
Operating Expenses		
Salaries and wages	24,713,734	24,046,361
Employee benefits	7,458,537	7,685,724
Purchased services and professional fees	102,376,346	63,268,363
Supplies and other	7,605,056	7,300,334
Rent	9,862,162	5,923,379
Utilities	4,596,875	3,296,498
Repairs and maintenance	3,168,755	2,481,208
Insurance	1,702,812	1,249,865
Hospital assessment fee	290,837	893,434
Depreciation and amortization	1,829,965	1,732,581
Other	1,038,294	1,089,682
Total operating expenses	<u>164,643,373</u>	<u>118,967,429</u>
Operating Income	<u>729,678</u>	<u>2,895,573</u>
Nonoperating Revenues (Expenses)		
Investment income	20,110	9,288
Interest expense	(626,113)	(657,643)
Gain (loss) on disposition of assets	(95,910)	16,317
Other	2,328	163,197
Total nonoperating expenses	<u>(699,585)</u>	<u>(468,841)</u>
Increase in Net Position	30,093	2,426,732
Net Position, Beginning of Year	<u>18,713,625</u>	<u>16,286,893</u>
Net Position, End of Year	<u><u>\$ 18,743,718</u></u>	<u><u>\$ 18,713,625</u></u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015 (Restated)
Operating Activities		
Receipts from and on behalf of patients	\$ 165,335,463	\$ 118,152,502
Payments to suppliers and contractors	(130,405,737)	(80,904,942)
Payments to employees	(30,222,271)	(32,270,439)
Other receipts, net	219,313	860,396
Net cash provided by operating activities	<u>4,926,768</u>	<u>5,837,517</u>
Noncapital Financing Activities		
Noncapital grants and gifts	-	163,197
Net cash provided by noncapital financing activities	<u>-</u>	<u>163,197</u>
Capital and Related Financing Activities		
Proceeds from sale of fixed assets	-	31,060
Principal paid on long-term debt	(1,226,219)	(1,146,063)
Interest paid on notes payable to banks and long-term debt	(626,113)	(657,643)
Purchase of capital assets	<u>(1,129,794)</u>	<u>(434,071)</u>
Net cash used in capital and related financing activities	<u>(2,982,126)</u>	<u>(2,206,717)</u>
Investing Activities		
Interest and dividends on investments	20,110	9,288
Purchase of investments	(4,400,000)	(5,500,000)
Proceeds from disposition of investments	5,600,000	2,615,734
Net cash provided by investing activities	<u>1,220,110</u>	<u>(2,874,978)</u>
Increase in Cash and Cash Equivalents	3,164,752	919,019
Cash and Cash Equivalents, Beginning of Year	<u>6,416,421</u>	<u>5,497,402</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,581,173</u></u>	<u><u>\$ 6,416,421</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 9,070,751	\$ 5,784,092
Restricted and board-designated cash, cash equivalents and investments	<u>510,422</u>	<u>632,329</u>
Total cash and cash equivalents	<u><u>\$ 9,581,173</u></u>	<u><u>\$ 6,416,421</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 729,678	\$ 2,895,573
Depreciation and amortization	1,829,965	1,732,581
Provision for uncollectible accounts	3,341,196	4,674,144
Changes in operating assets and liabilities		
Patient accounts receivable	(3,662,872)	(7,825,510)
Inventories	58,529	(160,946)
Estimated amounts due from and to third-party payers	501,073	1,194,696
Accounts payable and accrued expenses	1,950,338	4,656,914
Accrued salaries and related liabilities	252,760	(538,354)
Other current assets	<u>(73,899)</u>	<u>(775,264)</u>
Net cash provided by operating activities	<u><u>\$ 4,926,768</u></u>	<u><u>\$ 5,853,834</u></u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 824,132	\$ 1,799,669

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Woodlawn Hospital is an acute care hospital located in Rochester, Indiana. The Hospital is a component unit of Fulton County and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Fulton County area.

The Hospital operates a number of long-term care facilities through various lease agreements. These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

Basis of Accounting and Presentation

The financial statements of Woodlawn Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income, interest expense, gains (losses) on disposition of assets, and certain other items, are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Woodlawn Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of cash held in checking and savings accounts and certificates of deposit.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	2-25 years
Buildings and leasehold improvements	5-40 years
Equipment	2-20 years

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Deferred Outflows of Resources

The accounting for the acquisition of Fulton County Medical Center discussed in Note 13 resulted in recognizing intangible assets for goodwill and similar items of \$1,962,024. The carrying amount of the assets are amortized on a straight-line basis over a period of five to ten years. Total amortization expense for the years ended December 31, 2016 and 2015, was \$238,102 and \$238,686, respectively.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Net Position

Net position of the Hospital is classified in two components. Net position invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or net of related debt.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20 percent incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

During 2016 and 2015, the Hospital recognized approximately \$66,000 and \$13,000, respectively, in EHR incentive payments as income.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2015 financial statement presentation. The reclassifications had no effect on the changes in net position.

Note 2: Restatement of Prior Year's Financial Statements

The Hospital's 2015 statement of cash flows has been restated for an error. The Hospital included in cash and cash equivalents certain internally-designated certificates of deposit that had an original maturity greater than one year. The impact of the restatement was to increase purchases of investments by \$3,100,000, increase proceeds from disposition of investments by \$200,000, increase net cash used in investing activities by \$2,900,000 and decrease in cash and cash equivalents by \$2,900,000.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

This restatement did not have an impact on the total net position or change in net position of the Hospital.

Note 3: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital has received full accreditation from the Center for Medicare and Medicaid services for the critical access hospital designation. As a critical access hospital, the Hospital receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Approximately 39 percent and 38 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital participates in a state specific provider assessment program designed to increase Medicaid payments to hospitals. The Hospital incurred approximately \$300,000 and \$900,000 of fees related to the program in 2016 and 2015, respectively, and is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the State of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized approximately \$650,000 within net patient service revenue related to this supplemental payment program for each of the years ended December 31, 2016 and 2015.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in other operating revenue. The Hospital recognized approximately \$8,300,000 and \$4,100,000 related to this supplement payment program for the years ended December 31, 2016 and 2015, respectively, which is included in other net patient services revenue in the statements of revenues, expenses and changes in net position. At December 31, 2016 and 2015, approximately \$2,200,000 and \$1,030,000, respectively, are accrued and included in other current assets.

The Hospital has also 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.

Patient service revenue for 2016 and 2015 consists of the following:

	2016	2015
Inpatient services	\$ 140,214,391	\$ 93,609,380
Outpatient services	91,610,135	90,110,953
Physician services	8,016,253	8,818,845
Gross patient service revenue	<u>239,840,779</u>	<u>192,539,178</u>
Contractual allowances	(70,191,477)	(64,999,964)
Charity care	(1,152,040)	(1,862,464)
Bad debt	(3,341,196)	(4,674,144)
Deductions from revenue	<u>(74,684,713)</u>	<u>(71,536,572)</u>
Net patient service revenue	<u>\$ 165,156,066</u>	<u>\$ 121,002,606</u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 4: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depositary Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

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. The Hospital does not have this policy as it maintains all cash balances in cash or certificates of deposit, with maturities of less than one year.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. 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.

Summary of Carrying Values

The carrying values of deposits and certificates of deposit are included in the balance sheets as follows:

	2016	2015 (Restated)
Carrying value		
Deposits	\$ 11,281,173	\$ 9,316,421
Investments	-	-
	<u>\$ 11,281,173</u>	<u>\$ 9,316,421</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 9,070,751	\$ 5,784,092
Board-designated investments, current	1,150,000	1,150,000
Noncurrent, board-designated cash and investments	<u>1,060,422</u>	<u>2,382,329</u>
	<u>\$ 11,281,173</u>	<u>\$ 9,316,421</u>

Non-negotiable certificates of deposit of \$1,700,000 and \$2,900,000 are reflected in deposits as of December 31, 2016 and 2015, respectively.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Investment Income

Investment income for the years ended December 31, 2016 and 2015, consisted of interest income and was \$20,110 and \$9,288, respectively.

Note 5: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2016	2015
Medicare	\$ 547,740	\$ 660,900
Medicaid	373,041	400,475
Other third-party payers and patients	8,733,566	9,103,324
Receivables from long-term care operations	<u>8,718,075</u>	<u>7,604,059</u>
	18,372,422	17,768,758
Less allowance for uncollectible accounts	<u>(3,467,935)</u>	<u>(3,185,947)</u>
Net patient service revenue	<u><u>\$ 14,904,487</u></u>	<u><u>\$ 14,582,811</u></u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015, consisted of:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 596,216	\$ -	\$ -	\$ -	\$ 596,216
Land improvements	489,647	146,400	125,272	-	510,775
Buildings and leasehold improvements	26,898,355	567,041	94,114	-	27,371,282
Equipment	9,383,684	1,234,278	840,226	39,725	9,817,461
Construction in progress	39,725	6,207	-	(39,725)	6,207
Total	<u>37,407,627</u>	<u>1,953,926</u>	<u>1,059,612</u>	<u>-</u>	<u>38,301,941</u>
Less accumulated depreciation					
Land improvements	392,366	25,711	125,272	-	292,805
Buildings and leasehold improvements	10,938,715	772,783	96,114	-	11,615,384
Equipment	6,588,706	793,369	742,316	-	6,639,759
Total accumulated depreciation	<u>17,919,787</u>	<u>1,591,863</u>	<u>963,702</u>	<u>-</u>	<u>18,547,948</u>
Capital assets, net	<u>\$ 19,487,840</u>	<u>\$ 362,063</u>	<u>\$ 95,910</u>	<u>\$ -</u>	<u>\$ 19,753,993</u>

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 596,216	\$ -	\$ -	\$ -	\$ 596,216
Land improvements	479,597	10,050	-	-	489,647
Buildings and leasehold improvements	26,153,720	685,803	(5,903)	64,735	26,898,355
Equipment	8,286,422	1,371,878	(336,165)	61,549	9,383,684
Construction in progress	-	166,009	-	(126,284)	39,725
Total	<u>35,515,955</u>	<u>2,233,740</u>	<u>(342,068)</u>	<u>-</u>	<u>37,407,627</u>
Less accumulated depreciation					
Land improvements	375,829	16,537	-	-	392,366
Buildings and leasehold improvements	10,196,275	748,343	(5,903)	-	10,938,715
Equipment	6,181,113	729,015	(321,422)	-	6,588,706
Total accumulated depreciation	<u>16,753,217</u>	<u>1,493,895</u>	<u>(327,325)</u>	<u>-</u>	<u>17,919,787</u>
Capital assets, net	<u>\$ 18,762,738</u>	<u>\$ 739,845</u>	<u>\$ (14,743)</u>	<u>\$ -</u>	<u>\$ 19,487,840</u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount including a stop loss for individual employees over \$80,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 808,925	\$ 581,218
Current year claims incurred and changes in estimates for claims incurred in prior years	5,209,790	5,346,350
Claims and expenses paid	<u>(5,178,077)</u>	<u>(5,118,643)</u>
Balance, end of year	<u>\$ 840,638</u>	<u>\$ 808,925</u>

Note 8: 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. The annual interest rate is floating rate equal to prime rate, which was 3.25 percent at year-end. Interest is calculated on the outstanding principal and is due monthly. The line of credit was extended in 2013 with a maturity date in August 2018, at which time all unpaid principal is due. As of December 31, 2016 and 2015, the Hospital has not drawn down against the line of credit.

Note 9: Long-term Obligations

- 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 percent 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. This note was issued for the renovation and expansion of the Hospital and its parking facilities together with the purchase of the project equipment.

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Notes to the Financial Statements

December 31, 2016 and 2015

- 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 percent 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. The note was issued for the acquisition, construction, installation and equipping of a medical office building together with the purchase of the project equipment.
- The Hospital has entered into a promissory note of \$1,768,000 due in monthly installments of \$11,955 for 120 months at a fixed interest rate of 2.66 percent commencing on December 18, 2012. The promissory note is secured by the related real estate.
- The Hospital has entered into a promissory note of \$1,460,432 due in monthly installments of \$16,031 for 120 months at a fixed interest rate of 5.75 percent commencing on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023, will incur a fixed interest rate of 12 percent on the remaining balance until paid. The note is unsecured. The note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into an unsecured promissory note of \$493,768 due in monthly installments of \$5,420 for 120 months at a fixed interest rate of 5.75 percent commencing on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023, will incur a fixed interest rate of 12 percent on the remaining balance until paid. The note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into several capital lease obligations with interest rates of 1.24 percent to 4.07 percent, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$2,147 to \$24,647, including interest. Principal and interest payments are due through August 2021.

The Series 2007 and Series 2008 promissory notes require the Hospital to comply with certain restrictive financial covenants.

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Promissory notes					
Series 2007	\$ 5,935,576	\$ -	\$ 219,076	\$ 5,716,500	\$ 231,116
Series 2008	3,816,456	-	141,298	3,675,158	146,834
Rochester Orthopedics Building note	1,510,014	-	103,778	1,406,236	102,249
Fulton County Medical Clinic note 1	1,190,443	-	127,241	1,063,202	134,752
Fulton County Medical Clinic note 2	402,486	-	43,020	359,466	45,560
Capital lease obligations	1,857,896	824,132	591,806	2,090,222	572,590
Total long-term debt	\$ 14,712,871	\$ 824,132	\$ 1,226,219	\$ 14,310,784	\$ 1,233,101

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Promissory notes					
Series 2007	\$ 6,141,900	\$ -	\$ (206,324)	\$ 5,935,576	\$ 225,200
Series 2008	3,949,534	-	(133,078)	3,816,456	144,325
Rochester Orthopedics Building note	1,612,559	-	(102,545)	1,510,014	88,678
Fulton County Medical Clinic note 1	1,310,590	-	(120,147)	1,190,443	127,241
Fulton County Medical Clinic note 2	443,107	-	(40,621)	402,486	43,020
Capital lease obligations	601,575	1,799,669	(543,348)	1,857,896	520,135
Total long-term debt	\$ 14,059,265	\$ 1,799,669	\$ (1,146,063)	\$ 14,712,871	\$ 1,148,599

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2016, are as follows:

Year Ending December 31	Principal	Interest	Total
2017	\$ 1,233,101	\$ 559,006	\$ 1,792,107
2018	1,157,573	553,540	1,711,113
2019	1,145,728	512,328	1,658,056
2020	2,154,542	456,063	2,610,605
2021	894,960	400,941	1,295,901
2022 - 2026	3,048,998	1,503,389	4,552,387
2027 - 2031	3,365,375	757,993	4,123,368
2032 - 2033	1,310,507	58,841	1,369,348
	<u>\$ 14,310,784</u>	<u>\$ 4,802,101</u>	<u>\$ 19,112,885</u>

Property and equipment include the following property under capital leases:

	2016	2015
Equipment	\$ 3,089,594	\$ 3,085,218
Accumulated depreciation	(854,269)	(946,762)
	<u>\$ 2,235,325</u>	<u>\$ 2,138,456</u>

Note 10: Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$500,000 and \$812,000 in 2016 and 2015, respectively.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 11: Operating Leases

Noncancellable operating leases for a medical office and certain other items expire in various years through 2023. Total rent expense (excluding leases related to long-term care operating leases) for 2016 and 2015 was approximately \$560,000 and \$820,000, respectively. Minimum future payments on noncancellable leases for the years following December 31, 2016, are as follows:

Year Ending December 31	Amount
2017	\$ 373,604
2018	373,604
2019	373,604
2020	211,712
2021	211,712
Thereafter	<u>335,211</u>
Future minimum lease payments	<u><u>\$ 1,879,447</u></u>

Note 12: Long-Term Care Operating Leases and Management Agreements

The Hospital has entered into various agreements to lease the facilities and equipment for the operation of ten nursing homes. Along with each lease agreement, the Hospital has also entered into management agreements with the facilities' previous managers (Managers) to continue to operate the facilities. These agreements expire at various times through 2018 and include optional one to two year extensions. The management agreements include optional termination clauses by either party if material changes in circumstances, as defined in the agreement, occur. The leases include termination clauses where the lease shall automatically end at the termination of the management agreement between the Hospital and the Managers.

The lease agreements call for monthly base rent payments as outlined in the agreements. Rental expense approximated \$9,300,000 and \$5,000,000 in 2016 and 2015, respectively. Future minimum rent payments at December 31 are as follows:

Year Ending December 31	Amount
2017	\$ 7,800,972
2018	<u>2,572,200</u>
Future minimum lease payments	<u><u>\$ 10,373,172</u></u>

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

The management agreements include management fees consisting of base management fees, subordinated management fees and incentive management fees. These amounts are based on the net patient service revenue of the individual facilities. The agreements also call for quality, royalty and capital improvement fees to be paid to the managers at amounts based on the occupancy of each facility. Management, quality, royalty and capital improvement fees are to be paid only if sufficient working capital exists on an aggregate basis for each group of homes managed by individual managers. Management and other fees approximated \$9,100,000 and \$4,300,000 in 2016 and 2015, respectively, and are included in purchased services on the statements of revenues, expenses and changes in net position.

Note 13: Government Acquisitions

On August 1, 2013, the Hospital acquired the medical practice owned by Kenneth E. Hoff, M.D., P.C., d/b/a Fulton County Medical Clinic (Clinic) for \$2,154,200 to further integrate care. The Hospital received certain fixed assets, inventory and intangible assets in consideration for the \$200,000 in cash and \$1,954,200 in long-term debt. See Note 1 for further discussion of the deferred outflows of resources and Note 9 for further discussion of the promissory notes.

The Hospital also entered into a lease agreement with Kenneth E. Hoff, M.D. for medical office space for approximately \$212,000 per year. Rental expense recorded during 2016 and 2015 was approximately \$212,000 each year. Minimum future rental payments will be approximately \$212,000 for the next five years and approximately \$335,000 in total thereafter.

Note 14: Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan, Woodlawn Hospital 403(b) tax deferred annuity plan, administered by Lincoln National 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

The authority to establish and amend requirements of plan members and the Hospital is set forth in state law and is vested in the plan's plan administrator. Plan members may contribute a portion of their annual covered salary. The Hospital is required to contribute a matching amount from 10 percent to 50 percent of the employees' contribution based on years of service. Employer contributions to the plan for the calendar year 2016 and 2015 were approximately \$244,000 and \$373,000, respectively.

Woodlawn Hospital
A Component Unit of Fulton County, Indiana
Notes to the Financial Statements
December 31, 2016 and 2015

Note 15: Related Party Transactions

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

The Hospital recorded contributions from the Foundation of approximately \$57,000 in 2016 and 2015, recorded in other nonoperating income.

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

Note 16: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 17: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Woodlawn Hospital (Hospital), a component unit of Fulton County, Indiana, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2017, which contained a reference to the report of other auditors and an emphasis of matter paragraph regarding a misstatement.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the Hospital's management in a separate letter dated June 5, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Fort Wayne, Indiana
June 5, 2017

Woodlawn Hospital

A Component Unit of Fulton County, Indiana

Schedule of Findings and Responses

Year Ended December 31, 2016

Reference Number	Finding
2016-001	Criteria or Specific Requirement - Governmental Accounting Standards Board Statement Number 9 requires that a statement of cash flows to explain the change during the period in cash and cash equivalents, regardless of whether there are restrictions on their use. The Hospital included certain certificates of deposit that do not meet the definition of a cash equivalent in the total cash and cash equivalents in its 2015 financial statements. Condition - The Hospital did not appropriately reflect activity that did not meet the definition of a cash equivalent within the investing activities on the statement of cash flows. Context - The Hospital's management considers all internally-designated cash balances to be available for use in Hospital operations. Effect - Activity in these cash balances were not appropriately reflected in the statement of cash flows. Cause - During 2015, management began investing in longer-term certificates of deposit and did not exclude these items from the reconciliation of cash and cash equivalents on the statement of cash flows. Recommendation - Management should ensure all cash and cash equivalents are properly reflected in the statement of cash flows. Views of Responsible Officials and Planned Corrective Action - Management agrees appropriate disclosure and classification is necessary within the audited financial statements and has taken steps to ensure the appropriate disclosures are made.