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October 24, 2022

Board of Trustees
Woodlawn Hospital
1400 E. Ninth Street
Rochester, IN 46975

We have reviewed the audit report of Woodlawn Hospital, which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2021 to December 31, 2021. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Woodlawn Hospital as of December 31, 2021, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts

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

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021 AND 2020

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

CPAs / ADVISORS



WOODLAWN HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Woodlawn Hospital (the Hospital), a component unit of Fulton County, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of December 31, 2021 and 2020, and the respective changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts; and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (unaudited) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Hospital 's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022 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 solely 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 effectiveness of the Hospital's 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 the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
September 23, 2022

REQUIRED SUPPLEMENTARY INFORMATION

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

Management's discussion and analysis of Woodlawn Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2021 with comparable information for 2020 and 2019. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements included in this report.

USING THIS ANNUAL REPORT

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current financial statement information.
- The "*financial statements*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The balance sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2021 and 2020 while the statements of revenues, expenses and changes in net position summarize the revenues and expenses, including nonoperating items for the years then ended. The statements of cash flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The notes to the financial statements disclose additional information addressed within the body of the financial statements.
- The "*reporting under Government Auditing Standards and the Uniform Guidance*" section of this report includes a schedule of federal expenditures of federal awards and corresponding reporting. The schedule of expenditures of federal awards reports expenditures of funds during 2021 derived from awards from federal sources. The schedule of findings and questioned costs reports a summary of financial statement and single audit results and, if necessary, applicable findings or control deficiencies.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$4,914,000 and \$7,410,000 in 2021 and 2020, respectively.
- Operating loss decreased approximately \$1,769,000 in 2021. There was a decrease of \$7,169,000 from an operating income in 2019 of approximately \$1,373,000 to an operating loss in 2020 of \$5,796,000.
- Non-operating revenues (expenses) decreased approximately \$4,265,000 in 2021. There was an increase of \$13,557,000 from non-operating revenues (expenses) in 2019 of approximately (\$352,000) to non-operating revenues (expenses) in 2020 of \$13,206,000.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The 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, all deferred outflows of resources 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. Think of the Hospital's net position—the difference between assets, deferred outflows of resources and liabilities—as one measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, however, such as changes in the Hospital's patient base, changes in legislation or 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.

The Hospital's net position is the difference between its assets and deferred outflows and liabilities. The following information documents in summary the net position and the changes in net position related to activities of the Hospital as of December 31, 2021 and 2020 and for the years then ended.

Table 1 – Balance Sheets

	2021	2020	Change 2021 - 2020	2019	Change 2020 - 2019
Assets					
Current assets	\$ 42,300,620	\$ 44,760,867	\$ (2,460,247)	\$ 31,084,196	\$ 13,676,671
Assets whose use is limited	6,439,210	3,417,528	3,021,682	3,066,234	351,294
Capital assets, net	17,378,698	16,167,440	1,211,258	16,742,176	(574,736)
Total assets	66,118,528	64,345,835	1,772,693	50,892,606	13,453,229
Deferred outflows					
	308,606	462,908	(154,302)	617,210	(154,302)
Total assets and deferred outflows	<u>\$ 66,427,134</u>	<u>\$ 64,808,743</u>	<u>\$ 1,618,391</u>	<u>\$ 51,509,816</u>	<u>\$ 13,298,927</u>
Liabilities					
Current liabilities	\$ 22,362,899	\$ 26,002,527	\$ (3,639,628)	\$ 19,056,327	\$ 6,946,200
Long-term debt	8,442,141	8,097,795	344,346	9,154,894	(1,057,099)
Total liabilities	30,805,040	34,100,322	(3,295,282)	28,211,221	5,889,101
Net position					
Net investment in capital assets	7,729,588	7,011,507	718,081	5,284,733	1,726,774
Unrestricted	27,892,506	23,696,914	4,195,592	18,013,862	5,683,052
Total net position	35,622,094	30,708,421	4,913,673	23,298,595	7,409,826
Total liabilities and net position	<u>\$ 66,427,134</u>	<u>\$ 64,808,743</u>	<u>\$ 1,618,391</u>	<u>\$ 51,509,816</u>	<u>\$ 13,298,927</u>

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

The following discussion includes changes from 2020 to 2021. The significant changes in the Hospital's assets included current assets, which decreased by approximately \$2,460,000, assets whose use is limited, which increased by approximately \$3,022,000, and capital assets, net, which increased by approximately \$1,211,000. Current assets decreased due to transfers of cash and cash equivalents to assets whose use is limited as well as a decrease in cash and cash equivalents due to payment of Medicare accelerated payments. Assets whose use is limited increased primarily due to purchases of investments and positive market conditions in 2021. Capital assets, net increased primarily due to current year additions from capital leases for the magnetic resonance imaging (MRI) and computed tomography (CT) units. The significant change in the Hospital's liabilities was current liabilities, which decreased by approximately \$3,640,000. Current liabilities decreased primarily due to estimated third party settlements and refundable advances, which decreased by approximately \$3,896,000 and \$4,899,000, respectively due to payment of Medicare accelerated payments and recognition of Provider Relief Funds (PRF), respectively, received in 2020 in response to the COVID-19 pandemic. The Hospital's net position increased approximately \$4,914,000 due to non-operating revenues, net, partially offset by operating loss.

The following discussion includes changes from 2019 to 2020. The significant change in the Hospital's assets was current assets, which increased by approximately \$13,677,000. Current assets increased due to an increase in cash as a result of receipt of funds in response to the Coronavirus (COVID-19) pandemic. The significant changes in the Hospital's liabilities included current liabilities, which increased by approximately \$6,946,000, and long-term debt, which decreased by approximately \$1,057,000. Current liabilities increased primarily due to estimated third party settlements and refundable advances, which increased by approximately \$4,101,000 and \$4,899,000, respectively due to Medicare accelerated payments and PRF, respectively, received in response to the COVID-19 pandemic. Long-term debt decreased due to current year principal payments. The Hospital's net position increased approximately \$7,410,000 due to non-operating revenues, net, partially offset by operating loss.

Table 2 – Statements of Revenues, Expenses and Changes in Net Position

	2021	2020	Change 2021 - 2020	2019	Change 2020 - 2019
Operating revenues					
Net patient service revenue	\$ 181,447,924	\$ 178,987,597	\$ 2,460,327	\$ 180,297,439	\$ (1,309,842)
Other operating revenue	1,833,062	2,219,502	(386,440)	739,388	1,480,114
Total operating revenues	<u>183,280,986</u>	<u>181,207,099</u>	<u>2,073,887</u>	<u>181,036,827</u>	<u>170,272</u>
Operating expenses					
Salaries and benefits	38,140,553	34,498,303	3,642,250	35,410,408	(912,105)
Purchased services	112,124,380	117,819,751	(5,695,371)	108,923,873	8,895,878
Depreciation and amortization	1,820,649	1,739,270	81,379	1,637,262	102,008
Other operating expenses	35,222,730	32,945,647	2,277,083	33,692,538	(746,891)
Total operating expenses	<u>187,308,312</u>	<u>187,002,971</u>	<u>305,341</u>	<u>179,664,081</u>	<u>7,338,890</u>
Operating income (loss)	(4,027,326)	(5,795,872)	1,768,546	1,372,746	(7,168,618)
Non-operating revenues (expenses)	8,940,999	13,205,698	(4,264,699)	(351,609)	13,557,307
Change in net position	4,913,673	7,409,826	(2,496,153)	1,021,137	6,388,689
Net position beginning of year	<u>30,708,421</u>	<u>23,298,595</u>	<u>7,409,826</u>	<u>22,277,458</u>	<u>1,021,137</u>
Net position end of year	<u>\$ 35,622,094</u>	<u>\$ 30,708,421</u>	<u>\$ 4,913,673</u>	<u>\$ 23,298,595</u>	<u>\$ 7,409,826</u>

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

SOURCES OF REVENUE

During 2021 and 2020, 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 37% and 40% of the Hospital's gross revenues in 2021 and 2020, respectively. Revenues from managed care entities covering Medicaid patients are reflected in other commercial payors. Following is a table of major sources of gross patient revenues for 2021, 2020, and 2019:

	2021	2020	2019
Medicare	25%	28%	29%
Medicaid	12%	12%	10%
Blue Cross	22%	21%	22%
Other commercial payors	38%	36%	36%
Self-pay	3%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 42% and 40% of the Hospital's gross patient revenue in 2021 and 2020, respectively.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's net position increased by approximately \$4,914,000 and \$7,410,000 during 2021 and 2020, respectively, as shown in Table 2. The Hospital's return on net position was approximately 16.0%, 31.8%, and 4.6% for the years ended December 31, 2021, 2020, and 2019, respectively. This following section highlights the major financial factors for 2021 and 2020:

- Net patient service revenue was approximately \$181,448,000 in 2021, which increased approximately \$2,460,000 from 2020. Operating expenses increased approximately \$305,000 or 0.2% from 2020. Net patient service revenue was approximately \$178,988,000 in 2020, which decreased approximately \$1,310,000 from 2019. Operating expenses increased approximately \$7,339,000 or 4.1% from 2019, primarily due to increased expenses incurred in response to the COVID-19 pandemic.
- Purchased services was the expense classification with the largest decrease from 2020, decreasing approximately \$5,695,000 or 4.8% primarily due to expenses incurred in response to the COVID-19 pandemic during 2020. Purchased services increased from 2019 to 2020 by approximately \$8,896,000 or 8.2% primarily due to expenses incurred in response to the COVID-19 pandemic.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

- Non-operating revenue (expenses), net decreased approximately \$4,265,000 from 2020 to 2021, due to less PRF received and recognized that were distributed to healthcare providers as well as a Paycheck Protection Program (PPP) loan, distributed to certain qualifying organizations impacted by the outbreak of the COVID-19 pandemic, recognized in 2020. Non-operating revenues (expenses), net increased approximately \$13,557,000 from 2019 to 2020, due to PRF received and recognized as well as a PPP loan recognized.

THE STATEMENT OF CASH FLOWS

The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Table 3 – Statements of Cash Flows

	2021	2020	Change 2021 - 2020	2019	Change 2020 - 2019
Cash flow from (used in) activities					
Operating	\$ (8,088,398)	\$ 3,109,517	\$ (11,197,915)	\$ 2,393,012	\$ 716,505
Noncapital financing	9,357,390	13,654,594	(4,297,204)	-0-	13,654,594
Capital and related financing	(2,818,778)	(3,873,890)	1,055,112	(2,147,338)	(1,726,552)
Investing	(3,102,041)	2,333,252	(5,435,293)	(339,939)	2,673,191
Change in cash and cash equivalents	<u>\$ (4,651,827)</u>	<u>\$ 15,223,473</u>	<u>\$ (19,875,300)</u>	<u>\$ (94,265)</u>	<u>\$ 15,317,738</u>
Cash and cash equivalents					
Beginning of year	<u>\$ 25,892,902</u>	<u>\$ 10,669,429</u>		<u>\$ 10,763,694</u>	
End of year	<u>\$ 21,241,075</u>	<u>\$ 25,892,902</u>		<u>\$ 10,669,429</u>	

Total cash and cash equivalents decreased approximately \$4,652,000 in 2021. Total cash and cash equivalents increased approximately \$15,223,000 in 2020 and decreased approximately \$94,000 during 2019. Operating activities used cash and cash equivalents of approximately \$8,088,000 during 2021 mainly from payment of Medicare accelerated payments. Operating activities generated cash and cash equivalents of approximately \$3,110,000 and \$2,393,000 during 2020 and 2019, respectively, mainly from cash received from patients and third party payors. Noncapital financing activities generated cash and cash equivalents of approximately \$9,357,000 and \$13,655,000 during 2021 and 2020, respectively, due to governmental funds received for additional expenses incurred in response to the COVID-19 pandemic. Capital and related financing activities used cash and cash equivalents by approximately \$2,819,000, \$3,874,000, and \$2,147,000 during 2021, 2020 and 2019, respectively, mainly as a result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities decreased cash and cash equivalents by approximately \$3,102,000 and \$340,000 during 2021 and 2019, respectively, and increased cash and cash equivalents by approximately \$2,333,000 during 2020 due to transfer of funds to and from assets whose use is limited and variances in purchases and sales of investments in 2021, 2020, and 2019.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

CAPITAL ASSETS

During 2021 and 2020, the Hospital's net capital assets have increased by approximately \$1,211,000 and decreased by approximately \$575,000, respectively. The change in capital assets is outlined in the following table:

	2021	2020	Change 2021 - 2020	2019	Change 2020 - 2019
Capital assets					
Land and improvements	\$ 1,109,998	\$ 1,104,903	\$ 5,095	\$ 1,106,991	\$ (2,088)
Buildings and improvements	27,528,763	27,445,913	82,850	27,302,119	143,794
Equipment	11,394,525	10,868,623	525,902	10,521,060	347,563
Construction in process	258,691	-0-	258,691	-0-	-0-
	<u>40,291,977</u>	<u>39,419,439</u>	<u>872,538</u>	<u>38,930,170</u>	<u>489,269</u>
Less accumulated depreciation	<u>22,913,279</u>	<u>23,251,999</u>	<u>(338,720)</u>	<u>22,187,994</u>	<u>1,064,005</u>
Capital assets, net	<u>\$ 17,378,698</u>	<u>\$ 16,167,440</u>	<u>\$ 1,211,258</u>	<u>\$ 16,742,176</u>	<u>\$ (574,736)</u>

More detailed information about the Hospital's capital assets is presented in the notes to the financial statements.

DEBT

Total debt increased from approximately \$9,156,000 in 2020 to \$9,649,000 in 2021 due to capital leases being entered into partially offset by principal payments paid during the year. Total debt decreased from approximately \$11,457,000 in 2019 to \$9,156,000 in 2020 due to principal payments paid during the year. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS

During March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

WOODLAWN HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 AND 2020

Management believes that the healthcare industry's operating margins will continue to be under pressure as a result of COVID-19, the changes in payor mix and growth in operating expenses, that exceed any increases in contractually arranged and legally established payments received for services provided. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. This competitive market challenge will potentially be offset by the expected growth in the service area. The Hospital will still be faced with the challenge of providing quality services in an increasingly competitive environment, while at the same time managing costs. The Hospital will be affected by the increases in labor costs due to the competition for health care workers. The Hospital is also affected by the uncertainty of federal healthcare reform.

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

BALANCE SHEETS DECEMBER 31, 2021 AND 2020

ASSETS AND DEFERRED OUTFLOWS

	2021	2020
Current assets		
Cash and cash equivalents	\$ 16,696,865	\$ 21,250,374
Patient accounts receivable, net	17,871,417	16,098,024
Inventories	1,489,898	1,557,233
Current portion of board designated investments	2,225,000	2,225,000
Other current assets	4,017,440	3,630,236
Total current assets	<u>42,300,620</u>	<u>44,760,867</u>
Assets whose use is limited		
Board designated investments	8,664,210	5,642,528
Less current portion of board designated investments	<u>(2,225,000)</u>	<u>(2,225,000)</u>
Assets whose use is limited, net of current portion	6,439,210	3,417,528
Capital assets		
Land	596,216	596,216
Depreciable capital assets, net	<u>16,782,482</u>	<u>15,571,224</u>
Total capital assets	<u>17,378,698</u>	<u>16,167,440</u>
Total assets	66,118,528	64,345,835
Deferred outflows	<u>308,606</u>	<u>462,908</u>
Total assets and deferred outflows	<u>\$ 66,427,134</u>	<u>\$ 64,808,743</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

LIABILITIES AND NET POSITION

	2021	2020
Current liabilities		
Accounts payable and accrued expenses	\$ 17,983,783	\$ 13,109,520
Accrued salaries and related liabilities	2,967,316	2,834,826
Estimated third party settlements	204,831	4,101,316
Refundable advances	-0-	4,898,727
Current portion of capital leases	483,298	370,559
Current portion of long-term debt	723,671	687,579
Total current liabilities	<u>22,362,899</u>	<u>26,002,527</u>
Long-term debt and capital leases		
Capital leases	1,459,003	391,677
Long-term debt	6,983,138	7,706,118
Total long-term debt and capital leases	<u>8,442,141</u>	<u>8,097,795</u>
Total liabilities	30,805,040	34,100,322
Net position		
Net investment in capital assets	7,729,588	7,011,507
Unrestricted	27,892,506	23,696,914
Total net position	<u>35,622,094</u>	<u>30,708,421</u>
Total liabilities and net position	<u>\$ 66,427,134</u>	<u>\$ 64,808,743</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating revenues		
Net patient service revenue	\$ 181,447,924	\$ 178,987,597
Other operating revenue	1,833,062	2,219,502
Total operating revenue	183,280,986	181,207,099
Operating expenses		
Salaries and wages	27,881,481	26,088,269
Employee benefits	10,259,072	8,410,034
Purchased services	112,124,380	117,819,751
Supplies	9,414,404	8,490,131
Rent	11,253,924	11,161,728
Utilities	5,281,790	4,667,371
Repairs and maintenance	3,642,663	3,260,678
Insurance	2,035,581	1,878,932
Hospital Assessment Fee	2,235,398	2,184,409
Depreciation and amortization	1,820,649	1,739,270
Other	1,358,970	1,302,398
Total operating expenses	187,308,312	187,002,971
Operating income (loss)	(4,027,326)	(5,795,872)
Nonoperating revenue (expense)		
Investment income	17,959	113,252
Interest expense	(434,350)	(490,254)
Loss on disposition of assets	-0-	(71,894)
COVID-19 grant funds	9,357,390	13,654,594
Total nonoperating revenue (expense)	8,940,999	13,205,698
Change in net position	4,913,673	7,409,826
Net position		
Beginning of year	30,708,421	23,298,595
End of year	\$ 35,622,094	\$ 30,708,421

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating activities		
Cash received from patients and third party payors	\$ 168,643,921	\$ 185,704,091
Cash paid to employees for wages and benefits	(38,008,063)	(34,278,889)
Cash paid to vendors for goods and services	(140,557,318)	(150,535,187)
Other operating receipts, net	1,833,062	2,219,502
Net cash from operating activities	<u>(8,088,398)</u>	<u>3,109,517</u>
Noncapital financing activities		
COVID-19 grant funds	9,357,390	13,654,594
Capital and related financing activities		
Acquisition and construction of capital assets	(1,184,112)	(1,082,126)
Interest paid on long-term debt	(434,350)	(490,254)
Principal paid on long-term debt and capital leases	<u>(1,200,316)</u>	<u>(2,301,510)</u>
Net cash used in capital and related financing activities	(2,818,778)	(3,873,890)
Investing activities		
Investment income	17,959	113,252
Purchase of assets whose use is limited	(4,120,000)	(1,000,000)
Proceeds from sale of assets whose use is limited	<u>1,000,000</u>	<u>3,220,000</u>
Net cash from investing activities	<u>(3,102,041)</u>	<u>2,333,252</u>
Net change in cash and cash equivalents	(4,651,827)	15,223,473
Cash and cash equivalents		
Beginning of year	25,892,902	10,669,429
End of year	<u>\$ 21,241,075</u>	<u>\$ 25,892,902</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Reconciliation of operating income (loss) to net cash from operating activities		
Operating income (loss)	\$ (4,027,326)	\$ (5,795,872)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	1,820,649	1,739,270
Provision for bad debt	4,550,610	3,682,288
Changes in assets and liabilities		
Patient accounts receivable	(6,324,003)	(3,876,598)
Inventories	67,335	(261,891)
Estimated third party settlements	(3,896,485)	4,196,486
Other current assets	(387,204)	(663,461)
Accounts payable and accrued expenses	4,874,263	(1,028,846)
Accrued salaries and related liabilities	132,490	219,414
Refundable advances	(4,898,727)	4,898,727
Net cash from operating activities	<u>\$ (8,088,398)</u>	<u>\$ 3,109,517</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In cash and cash equivalents	\$ 16,696,865	\$ 21,250,374
In assets whose use is limited	4,544,210	4,642,528
Total cash and cash equivalents	<u>\$ 21,241,075</u>	<u>\$ 25,892,902</u>
Supplemental cash flows information		
Capital assets financed through capital leases	\$ 1,693,493	\$ -0-

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Woodlawn Hospital (the Hospital) is a hospital located in Rochester, Indiana. The Hospital was created by the Board of County Commissioners of Fulton County, Indiana to operate, control and manage all matters concerning Fulton County's health care functions. The Hospital is a county owned facility operating under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides acute care including inpatient, outpatient and emergency care as well as long-term care. The Board of County Commissioners of Fulton County appoints the Board of Trustees of the Hospital. For this reason, the Hospital is considered a discrete component unit of Fulton County.

In 1975, the Board of County Commissioners of Fulton County, upon written request of the Hospital Board of Trustees, created the Fulton County Hospital Association (the Association). The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities of the Hospital. The Association's net position as of December 31, 2021 and 2020 and related changes in net position and cash flows for the years then ended were not significant.

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 financial statements to be misleading or incomplete, and they are financially accountable to the primary government. There were no balances or transactions to report related to component unit organizations as of December 31, 2021 and 2020 and for the years then ended.

Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of certain long-term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital, and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital, and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2022. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings, and certificates of deposits accounts available for operating purposes with original maturity dates of 90 days or less from purchase date. 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 and are reported based on gross charges, net of certain deductions from those charges. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and for Medicaid outpatient services based on a predetermined fee schedule. For both Medicare and Medicaid, differences between the total program billed charges and the payments received are reflected as deductions from revenue. 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. Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2018 with immaterial differences reflected as deductions from revenue in 2021. Amounts from unresolved cost reports for 2019 and 2021 are reflected in estimated third party settlements on the balance sheets. Also included in estimated third party settlements on the balance sheet as of December 31, 2020 is approximately \$4,196,000 received for Medicare accelerated payments during 2020, which were repaid during 2021.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges net of an allowance for contractual adjustments. The allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies. In addition, management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

Hospital Assessment Fee Program

The purpose of the Hospital Assessment Fee (HAF) Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the Hospital assessment fee expense reported in the statements of revenues, expenses and changes in net position.

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2021 and 2020, the Hospital recognized HAF expense of approximately \$2,235,000 and \$2,184,000, respectively, which resulted in increased Medicaid reimbursement.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$790,000 and \$783,000 during 2021 and 2020, respectively. These programs are administered by the State of Indiana but rely on Federal funding.

Charity Care

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

The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient services. Of the Hospital's total expenses reported, excluding the long-term care expenses, an estimated \$653,000 and \$724,000 arose from providing services to charity patients during the years ended December 31, 2021 and 2020, respectively.

Inventories

Inventories consist primarily of drugs and supplies and are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Assets Whose Use is Limited

Assets whose use is limited are stated at cost which approximates fair value in the financial statements. These assets include investments designated by the Hospital Board of Trustees for internal purposes and capital improvements. These investments consist primarily of cash and cash equivalents and certificates of deposit. Investment income is reported as nonoperating income in the statements of revenues, expenses, and changes in net position.

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 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

Deferred Outflows

The accounting for the acquisition of Fulton County Medical Center discussed in Note 11 resulted in recognizing intangible assets for goodwill and similar items of approximately \$1,543,000. The carrying amount of the assets will be amortized on a straight-line basis over a period of 10 years. Total amortization expense for the years ended December 31, 2021 and 2020 was approximately \$154,000.

Net Position

Net position of the Hospital is classified in two components. (1) Net position invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding borrowings used to finance the purchase or construction of those assets. (2) Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets, net of related debt.

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. Approval by the Hospital Board of Trustees is required for use of restricted resources. As of December 31, 2021 and 2020, the Hospital did not have any restricted resources.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, COVID-19 grant funds, 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.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from government agencies, 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. Grants are recognized to the extent that the Hospital meets the terms and conditions of the grant. To the extent the Hospital has not met the terms and conditions of the grant, amounts are recorded as refundable advances within the balance sheets.

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$449,000 and \$356,000 for 2021 and 2020, respectively, and are included within other operating expenses on the statements of revenue, expenses and changes in net position.

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.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

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.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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 claim experience, an accrual for estimated malpractice costs for identified claims was approximately \$25,000 as of December 31, 2021 and 2020. It is reasonably possible that this estimate could change materially in the near term.

Litigation

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is September 23, 2022.

Recently Issued Accounting Standard

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Hospital is presently evaluating the impact of this standard on its future financial statements.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2021, the Hospital implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in the Hospital's financial statements. This statement was adopted prospectively beginning in 2021.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2021 and 2020:

	2021	2020
Inpatient services	\$ 24,690,810	\$ 22,353,809
Outpatient services	120,810,624	107,155,856
Physician services	19,338,482	16,311,628
Long-term care services	120,524,870	123,824,092
Gross patient service revenue	285,364,786	269,645,385
Contractual adjustments	(98,353,066)	(85,931,167)
Charity care	(1,013,186)	(1,044,333)
Provision for uncollectable accounts	(4,550,610)	(3,682,288)
Deductions from patient service revenue	(103,916,862)	(90,657,788)
Net patient service revenue	<u>\$ 181,447,924</u>	<u>\$ 178,987,597</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

4. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital as of December 31, 2021 and 2020 is as follows:

	2021	2020
<u>Patient accounts receivable</u>		
Receivable from Medicare	\$ 4,922,789	\$ 4,783,017
Receivable from Medicaid	2,610,449	1,705,056
Receivable from Blue Cross	3,625,347	3,327,266
Receivable from other commercial payors	8,447,313	6,960,992
Receivable from self-pay patients	4,783,334	3,256,176
Receivable from long-term care services	8,223,746	7,626,841
Total patient accounts receivable	32,612,978	27,659,348
Less allowances for contractual adjustments	(11,505,643)	(9,167,017)
Less allowance for uncollectable accounts	(3,235,918)	(2,394,307)
Total allowances on patient accounts receivable	(14,741,561)	(11,561,324)
Patient accounts receivable, net	<u>\$ 17,871,417</u>	<u>\$ 16,098,024</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 17,983,783	\$ 13,109,520
Payable to employees (including taxes and benefits)	2,967,316	2,834,826
Total accounts payable and accrued expenses	<u>\$ 20,951,099</u>	<u>\$ 15,944,346</u>

5. ASSETS WHOSE USE IS LIMITED

Board Designated Investments

Cash and cash equivalents and certificates of deposit set aside by the Hospital Board of Trustees for identified purposes and over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes. The current portion of these investments are designated by the board for interest and principal payments due within a year while the long-term portion is designated to fund depreciation and other long-term capital needs.

The following represents assets whose use is limited as of December 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 4,544,210	\$ 4,642,528
Certificates of deposit	4,120,000	1,000,000
	<u>\$ 8,664,210</u>	<u>\$ 5,642,528</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments are carried at cost, which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash and cash equivalents and certificates of deposit. As of December 31, 2021 and 2020, 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, 2021				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit		\$ 4,120,000	\$ 4,120,000	\$ -0-	\$ -0-	\$ -0-
		December 31, 2020				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit		\$ 1,000,000	\$ 1,000,000	\$ -0-	\$ -0-	\$ -0-

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Deposits and investments consist of the following as of December 31, 2021 and 2020:

	2021	2020
Carrying amount		
Deposits	\$ 21,241,075	\$ 25,892,902
Investments	4,120,000	1,000,000
	\$ 25,361,075	\$ 26,892,902
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 16,696,865	\$ 21,250,374
Board designated investments	8,664,210	5,642,528
	\$ 25,361,075	\$ 26,892,902

Investment income for the years ended December 31, 2021 and 2020 consisted of interest income and was approximately \$18,000 and \$113,000, respectively.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

7. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020 is as follows:

	Balance December 31, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
Capital assets					
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	508,687	5,095	-0-	-0-	513,782
Buildings and fixtures	27,445,913	82,850	-0-	-0-	27,528,763
Equipment	10,868,623	2,530,969	(2,005,067)	-0-	11,394,525
Construction in progress	-0-	258,691	-0-	-0-	258,691
Total capital assets	<u>39,419,439</u>	<u>2,877,605</u>	<u>(2,005,067)</u>	<u>-0-</u>	<u>40,291,977</u>
Less accumulated depreciation					
Land improvements	424,785	22,753	-0-	-0-	447,538
Buildings and fixtures	14,358,749	686,910	-0-	-0-	15,045,659
Equipment	8,468,465	956,684	(2,005,067)	-0-	7,420,082
Total accumulated depreciation	<u>23,251,999</u>	<u>1,666,347</u>	<u>(2,005,067)</u>	<u>-0-</u>	<u>22,913,279</u>
Capital assets, net	<u>\$ 16,167,440</u>	<u>\$ 1,211,258</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 17,378,698</u>
	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
Capital assets					
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	510,775	-0-	(2,088)	-0-	508,687
Buildings and fixtures	27,302,119	146,576	(2,782)	-0-	27,445,913
Equipment	10,521,060	935,550	(587,987)	-0-	10,868,623
Total capital assets	<u>38,930,170</u>	<u>1,082,126</u>	<u>(592,857)</u>	<u>-0-</u>	<u>39,419,439</u>
Less accumulated depreciation					
Land improvements	397,388	29,485	(2,088)	-0-	424,785
Buildings and fixtures	13,679,818	681,713	(2,782)	-0-	14,358,749
Equipment	8,110,788	873,770	(516,093)	-0-	8,468,465
Total accumulated depreciation	<u>22,187,994</u>	<u>1,584,968</u>	<u>(520,963)</u>	<u>-0-</u>	<u>23,251,999</u>
Capital assets, net	<u>\$ 16,742,176</u>	<u>\$ (502,842)</u>	<u>\$ (71,894)</u>	<u>\$ -0-</u>	<u>\$ 16,167,440</u>

There were no significant outstanding commitments surrounding capital assets as of December 31, 2021.

8. LINE OF CREDIT

The Hospital has obtained a \$700,000 revolving line of credit with Lake City Bank. The line of credit is secured by all inventory, accounts, equipment, and general intangibles with an approximate net book value of \$22,505,000. The annual interest rate is floating rate equal to prime rate, which was 3.25% at year-end. Interest is calculated on the outstanding principal and is due monthly. The line of credit matures in August 2023, at which time all unpaid principal is due. As of December 31, 2021 and 2020, the Hospital has not drawn down against the line of credit.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

9. LONG-TERM DEBT AND CAPITAL LEASES

A summary of long-term debt and capital leases as of December 31, 2021 is as follows:

- 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% and commenced on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Series 2007 promissory note is secured by the related real estate with an approximate net book value of \$9,447,000. This note was issued for the renovation and expansion of Woodlawn Hospital and its parking facilities together with the purchase of the project equipment.
- The Hospital's \$4,700,000, Series 2008 Promissory Note is due in monthly installments of \$26,916 for 298 months at a fixed interest rate of 4.76% and commenced on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Series 2008 promissory note is secured by the related real estate with an approximate net book value of \$9,447,000. This 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 had entered into a Promissory Note of \$1,768,000 (Rochester Orthopedics Building note) due in monthly installments of \$11,955 for 78 months at a fixed interest rate of 2.66% that commenced on December 18, 2012 (with first payment due January 2014) and matured on June 19, 2020. This note was secured by the related real estate. This note was paid in its entirety during 2020.
- The Hospital has entered into a Promissory Note of \$1,460,432 (Fulton County Medical Clinic note 1) due in monthly installments of \$16,031 for 120 months at a fixed interest rate of 5.75% that commenced 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% on the remaining balance until paid. This note is not secured. This note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into a Promissory Note of \$493,768 (Fulton County Medical Clinic note 2) due in monthly installments of \$5,420 for 120 months at a fixed interest rate of 5.75% that commenced 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% on the remaining balance until paid. This note is not secured. This 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 1.59% to 5.78%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$1,134 to \$24,647, including interest. Principal and interest payments are due through October 2024.

The Series 2007 and Series 2008 promissory notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2021, management believes that the Hospital was in compliance with the financial covenants.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

The following represents a progression of long-term debt and capital leases for the Hospital for the years ended December 31, 2021 and 2020:

	Balance December 31, 2020	Additional Borrowings	Payments	Balance December 31, 2021	Current Portion	Long-term Portion
Long-term debt and capital leases						
Direct borrowings - promissory notes						
Series 2007	\$ 4,721,066	\$ -0-	\$ (279,684)	\$ 4,441,382	\$ 294,946	\$ 4,146,436
Series 2008	3,037,638	-0-	(180,387)	2,857,251	188,517	2,668,734
Fulton County Medical Clinic Note 1	474,549	-0-	(169,507)	305,042	179,515	125,527
Fulton County Medical Clinic Note 2	160,444	-0-	(57,310)	103,134	60,693	42,441
Capital lease obligations	762,236	1,693,493	(513,428)	1,942,301	483,298	1,459,003
Total long term debt and capital leases	<u>\$ 9,155,933</u>	<u>\$ 1,693,493</u>	<u>\$ (1,200,316)</u>	<u>\$ 9,649,110</u>	<u>\$ 1,206,969</u>	<u>\$ 8,442,141</u>
	Balance December 31, 2019	Additional Borrowings	Payments	Balance December 31, 2020	Current Portion	Long-term Portion
Long-term debt and capital leases						
Direct borrowings - promissory notes						
Series 2007	\$ 4,980,807	\$ -0-	\$ (259,741)	\$ 4,721,066	\$ 281,110	\$ 4,439,956
Series 2008	3,210,608	-0-	(172,970)	3,037,638	179,652	2,857,986
Rochester Orthopedics Building Note	1,081,894	-0-	(1,081,894)	-0-	-0-	-0-
Fulton County Medical Clinic Note 1	634,606	-0-	(160,057)	474,549	169,507	305,042
Fulton County Medical Clinic Note 2	214,559	-0-	(54,115)	160,444	57,310	103,134
Capital lease obligations	1,334,969	-0-	(572,733)	762,236	370,559	391,677
Total long term debt and capital leases	<u>\$ 11,457,443</u>	<u>\$ -0-</u>	<u>\$ (2,301,510)</u>	<u>\$ 9,155,933</u>	<u>\$ 1,058,138</u>	<u>\$ 8,097,795</u>

Aggregate maturities of long-term debt and capital leases are as follows:

Year ending December 31,	Promissory notes		Capital Lease Obligations		Total
	Principal	Interest	Principal	Interest	
2022	\$ 723,671	\$ 361,072	\$ 483,298	\$ 55,591	\$ 1,623,632
2023	672,396	323,785	491,313	38,898	1,526,392
2024	528,566	296,108	376,530	23,994	1,225,198
2025	555,507	269,167	350,930	12,744	1,188,348
2026	583,226	241,756	240,230	2,799	1,068,011
2027 - 2031	3,374,856	748,511	-0-	-0-	4,123,367
2032 - 2033	1,268,587	56,412	-0-	-0-	1,324,999
	<u>\$ 7,706,809</u>	<u>\$ 2,296,811</u>	<u>\$ 1,942,301</u>	<u>\$ 134,026</u>	<u>\$ 12,079,947</u>

Capital assets acquired through capital leases still in effect are as follows:

	2021	2020
Equipment	\$ 2,476,314	\$ 3,376,323
Accumulated depreciation	496,319	(2,076,382)
	<u>\$ 2,972,633</u>	<u>\$ 1,299,941</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

10. OPERATING LEASES

The Hospital has leases for a medial office and certain other items that expire in various years through 2025. 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 2021 and 2020 was approximately \$802,000 and \$709,000, respectively. Minimum future payments on non-cancellable leases for the years following December 31, 2021 are as follows:

Year Ending December 31,	Amount
2022	\$ 579,949
2023	236,004
2024	61,357
2025	30,679
	<u>\$ 907,989</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$10,452,000 for 2021 and 2020.

11. 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 (the Clinic) for \$2,154,200 to further integrate care. The Hospital received certain fixed assets, inventory, and intangible assets in consideration for \$200,000 in cash and \$1,954,200 in long-term debt. See Note 1 for further discussion of the deferred outflows and Note 9 for further discussion of the promissory notes.

12. DEFINED CONTRIBUTION PENSION PLANS

Plan Descriptions

The Woodlawn Hospital 403(b) Tax Deferred Annuity Plan (403(b) Plan) and the Woodlawn Hospital 457(b) Deferred Compensation Plan (457(b) Plan) are defined contribution pension plans, as authorized by Indiana Code 16-22-3-11, administered by Lincoln National Life Insurance Company. The plans cover all employees who meet eligibility requirements as to age and length of service. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The plans were established by written agreements between the Hospital's Board of Trustees and the plan administrator.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Funding Policy

The contribution requirements of plan members are established by the written agreements between the Hospital's Board of Trustees and the plan administrator. 403(b) Plan and 457(b) Plan members may contribute a portion of their annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees' 403(b) Plan contribution based on years of service. Employer matching contributions to the 403(b) Plan for the calendar year 2021 and 2020 were \$258,000 and \$250,000, respectively. The Hospital is not permitted to contribute to the 457(b) Plan.

13. CONCENTRATION OF CREDIT RISK

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 and gross patient service revenues from patients and third party payors as of December 31, 2021 and 2020 was as follows:

	Receivables		Revenues	
	2021	2020	2021	2020
Medicare	20%	24%	25%	28%
Medicaid	11%	8%	12%	12%
Blue Cross	15%	17%	22%	21%
Other commercial payors	35%	35%	38%	36%
Self-pay	19%	16%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

14. 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 \$125,000 with an unlimited aggregate amount each year. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$7,795,000 and \$6,059,000 for 2021 and 2020, respectively. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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

	2021	2020
Unpaid claims, beginning of fiscal year	\$ 478,194	\$ 571,312
Incurred claims and changes in estimates	7,795,065	6,059,243
Claims and expenses paid	<u>(7,641,363)</u>	<u>(6,152,361)</u>
Unpaid claims, end of fiscal year	<u>\$ 631,896</u>	<u>\$ 478,194</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

15. 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.

16. COVID-19

During March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

During 2021 and 2020, Provider Relief Fund (PRF) and Rural Health Clinic Testing and Mitigation (RHCTM) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARP) were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic primarily under Catalog of Federal Domestic Assistance (CFDA) #93.498 and CFDA #93.697, respectively. Revenues from PRF and RHCTM grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor.

The Hospital received PRF and RHCTM grants of approximately \$4,458,000 and \$13,813,000 during 2021 and 2020, respectively. PRF and RHCTM funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. The Hospital recognized PRF and RHCTM grants of approximately \$9,200,000 and \$9,071,000 in 2021 and 2020, respectively, which is included in nonoperating revenue (expenses), net in the statements of revenues, expenses and changes in net position. Amounts received prior to incurring qualifying expenditures or lost revenues are reported as refundable advances in the balance sheets. As of December 31, 2021 and 2020, approximately \$-0- and \$4,742,000, respectively, was recorded as refundable advances related to the PRF and RHCTM grants and is included in refundable advances on the balance sheets. Additionally, during 2020, the Hospital received and deferred Indiana Hospital Association, Inc. and other grants of approximately \$157,000, which were included in refundable advances in the balance sheet as of December 31, 2020 and subsequently recognized as revenue during 2021 as COVID-19 grant funds in nonoperating revenue (expenses), net in the statements of revenues, expenses and changes in net position.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

During April 2020, the Hospital received a low interest loan in the amount of approximately \$4,584,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP loan was unsecured, bore interest at 1% and funds advanced under the program were subject to forgiveness if certain criteria were met with the remaining balance repayable within two years of disbursement. The PPP loan was forgivable to the extent that employers incur and spend the funds on qualified expenditures, which included payroll, employee health insurance, rent, utilities and interest costs during a covered period. In addition, employers must have maintained specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

The Hospital elected to treat the PPP loan as a grant and recognize as revenue once the conditions for loan forgiveness were substantially met as outlined in the PPP guidance. During 2020, the Hospital recognized the entire loan amount of approximately \$4,584,000 as revenue in COVID-19 grant funds within nonoperating revenue (expenses) in the statements of revenues, expenses, and changes in net position as conditions under the PPP guidance were satisfied. During May 2021, the Hospital received notice of full forgiveness from the SBA.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

We have audited, in accordance with the 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 (the Hospital), a component unit of Fulton County, which comprise the balance sheet as of December 31, 2021, 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 September 23, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing 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.

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 *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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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 financial statements. 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*.

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.

Blue & Co., LLC

Indianapolis, Indiana
September 23, 2022



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Woodlawn Hospital's (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
September 23, 2022

WOODLAWN HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2021

Grantor/Pass-through Grantor/Program	Grant ID #	CFDA Number	Federal Expenditures
Major program			
U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	Not applicable	93.498	\$ 13,515,905
Non-major program			
U.S. Department of Health and Human Services COVID-19 - Testing and Mitigation for Rural Health Clinics	Not applicable	93.697	296,769
Total federal expenditures			<u>\$ 13,812,674</u>

See report on schedule of expenditures of federal awards as required by the Uniform Guidance on page 27.
See notes to schedule of expenditures of federal awards on pages 31 through 32.

WOODLAWN HOSPITAL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Woodlawn Hospital (the Hospital) under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3. SUB-RECIPIENT PASS THROUGH

There were no entities that received pass-through federal awards from the Hospital during the year ended December 31, 2021.

4. PROVIDER RELIEF FUNDS

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aids, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received.

The 2021 SEFA includes PRF of approximately \$13,516,000 which was received by the Hospital prior to December 31, 2020. HHS required these PRF amounts be reported on the 2021 SEFA rather than the 2020 SEFA. The Hospital recognized approximately \$9,071,000 as revenue in its 2020 statement of revenues, expenses and changes in net position as the terms and conditions of the PRF grant were satisfied by the Hospital during 2021. Accordingly, as of December 31, 2020, approximately \$4,445,000 was recorded as a refundable advance liability on the balance sheet and recognized as revenue in 2021. During 2021, the Hospital received additional PRF of approximately \$4,458,000. HHS requires these PRF amounts be reported on the 2022 SEFA rather than the 2021 SEFA. The Hospital recognized approximately \$8,903,000 as revenue in its 2021 statement of revenues, expenses and changes in net position as the terms and conditions of the PRF grant were satisfied by the Hospital during 2021. As of December 31, 2021, there were no refundable advances on the balance sheet. The PRF amounts above do not include \$297,000 of Rural Health Clinic Testing and Mitigation as this program is consider separate from PRF, but still within the aspect of COVID-19 funds received.

WOODLAWN HOSPITAL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2021

5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDTED)

The Hospital has determined that the fair value of donated personal protective equipment (PPE) received during 2021 was immaterial to the financial statements. The donated PPE was not considered for purposes of determining the threshold for Uniform Guidance determination of major programs and is not required to be audited as a major program.

WOODLAWN HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2021

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes none reported

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]? yes no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Programs or Clusters</u>
93.498	U.S. Department of Health and Human Services COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported