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November 4, 2015

Woodlawn Hospital
1400 E. Ninth Street
Rochester, IN 46975

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2014 to December 31, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Woodlawn Hospital, as of December 31, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

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

Paul D. Joyce, CPA
State Examiner

WOODLAWN HOSPITAL



ROCHESTER — INDIANA

1400 East Ninth Street

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Woodlawn Hospital (the Hospital), which comprise the balance sheets as of December 31, 2014 and 2013, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

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 and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Assets, Liabilities, and Net Position

	2014	2013	Change 2014-2013	2012	Change 2013-2012
Assets					
Current assets	\$ 19,994,704	\$ 16,643,431	\$ 3,351,273	\$ 10,213,282	\$ 6,430,149
Assets whose use is limited, net of current portion	1,538,110	2,105,577	(567,467)	2,430,151	(324,574)
Capital assets, net	18,762,738	20,295,164	(1,532,426)	19,541,661	753,503
Total assets	<u>\$ 40,295,552</u>	<u>\$ 39,044,172</u>	<u>\$ 1,251,380</u>	<u>\$ 32,185,094</u>	<u>\$ 6,859,078</u>
Deferred outflows					
Total assets and deferred outflows	<u>1,695,989</u>	<u>1,934,091</u>	<u>(238,102)</u>	<u>-0-</u>	<u>1,934,091</u>
	<u>\$ 41,991,541</u>	<u>\$ 40,978,263</u>	<u>\$ 1,013,278</u>	<u>\$ 32,185,094</u>	<u>\$ 8,793,169</u>
Liabilities					
Current liabilities	\$ 12,571,618	\$ 10,431,098	\$ 2,140,520	\$ 5,589,400	\$ 4,841,698
Long-term debt	13,133,030	14,073,228	(940,198)	12,042,061	2,031,167
Total liabilities	<u>25,704,648</u>	<u>24,504,326</u>	<u>1,200,322</u>	<u>17,631,461</u>	<u>6,872,865</u>
Net position					
Net investment in capital assets	4,703,473	5,215,591	(512,118)	6,770,358	(1,554,767)
Restricted					
For debt service	-0-	-0-	-0-	154,500	(154,500)
Total restricted net position	-0-	-0-	-0-	154,500	(154,500)
Unrestricted	11,583,420	11,258,346	325,074	7,628,775	3,629,571
Total net position	<u>16,286,893</u>	<u>16,473,937</u>	<u>(187,044)</u>	<u>14,553,633</u>	<u>1,920,304</u>
Total liabilities and net position	<u>\$ 41,991,541</u>	<u>\$ 40,978,263</u>	<u>\$ 1,013,278</u>	<u>\$ 32,185,094</u>	<u>\$ 8,793,169</u>

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

- The Hospital's net patient services revenue increased approximately \$14,859,000 in 2014 and increased approximately \$31,999,000 in 2013. The net patient services revenue was enhanced by the addition of long-term care operations during 2014 and 2013 by approximately \$42,540,000 and \$28,690,000, respectively.
- Operating expenses increased approximately \$16,618,000 or 22% in 2014 and increased approximately \$31,445,000 or 73% in 2013. The change in 2014 and 2013 is due to the addition of the long-term care operations.
- Other operating expense represented the largest increase over the prior year. It increased approximately \$13,258,000 or 34% in 2014 and increased approximately \$28,438,000 or 278% in 2013. The change in 2014 and 2013 is attributable to the purchases services arrangements with the long-term care operations.

STATEMENTS OF CASH FLOWS

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

	2014	2013	Change 2014-2013	2012	Change 2013-2012
Cash flow from activities					
Operating	\$ 1,683,467	\$ 2,925,689	\$ (1,242,222)	\$ 3,649,953	\$ (724,264)
Noncapital financing	17,800	27,919	(10,119)	23,196	4,723
Capital and related financing	(1,839,129)	(2,469,376)	630,247	(3,748,679)	1,279,303
Investing	1,257,516	(1,042,520)	2,300,036	(190,353)	(852,167)
Change in cash and cash equivalents	<u>\$ 1,119,654</u>	<u>\$ (558,288)</u>	<u>\$ 1,677,942</u>	<u>\$ (265,883)</u>	<u>\$ (292,405)</u>

Total cash and cash equivalents increased \$1,119,654 in 2014 and decreased by \$558,288 in 2013. Operating activities generated cash and cash equivalents of \$1,683,467 during 2014 and \$2,925,689 during 2013 mainly from cash received from patients and third-parties. Capital and related financing decreased cash and cash equivalents by \$1,839,129 during 2014 and by \$2,469,376 during 2013 mainly as the result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities increased cash and cash equivalents by \$1,257,516 in 2014 and decreased by \$1,042,520 in 2013 due to transfer of funds to and from the assets whose use is limited investments.

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

DEBT

Total debt decreased from \$15,079,573 to \$14,059,265 in 2014 due to principal payments paid during the year. Total debt increased from \$12,771,303 to \$15,079,573 in 2013 due to the completion of the Rochester Orthopedics building and the acquisition of Fulton County Medical Clinic. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

WOODLAWN HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 8,708,774	\$ 6,206,113
Accrued salaries and related liabilities	2,936,609	3,218,640
Current portion capital leases	324,106	429,186
Current portion long-term debt	602,129	577,159
Total current liabilities	<u>12,571,618</u>	<u>10,431,098</u>
Long-term debt and capital leases		
Capital leases	277,469	601,684
Long-term debt	12,855,561	13,471,544
Total long-term debt	<u>13,133,030</u>	<u>14,073,228</u>
Total liabilities	25,704,648	24,504,326
Net position		
Net investment in capital assets	4,703,473	5,215,591
Unrestricted	11,583,420	11,258,346
Total net position	<u>16,286,893</u>	<u>16,473,937</u>
Total liabilities and net position	<u>\$ 41,991,541</u>	<u>\$ 40,978,263</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating activities		
Cash received from patients and third party payors	\$ 87,071,415	\$ 68,185,251
Cash paid to employees for wages and benefits	(30,388,634)	(25,345,971)
Cash paid to vendors for goods and services	(56,110,141)	(41,431,177)
Other operating receipts, net	1,110,827	1,517,586
Net cash from operating activities	1,683,467	2,925,689
Noncapital financing activities		
Other nonoperating	17,800	27,919
Capital and related financing activities		
Acquisition and construction of capital assets	(154,179)	(2,092,126)
Loss on disposal of assets	1,170	1,974
Interest paid on long-term debt	(665,812)	(733,294)
Proceeds from issuance of long term debt	-0-	1,018,003
Principal payments on long-term debt and capital leases, net	(1,020,308)	(663,933)
Net cash from capital and related financing activities	(1,839,129)	(2,469,376)
Investing activities		
Investment income	7,516	7,480
Assets whose use is limited proceeds	1,250,000	700,000
Assets whose use is limited purchases	-0-	(1,750,000)
Net cash from investing activities	1,257,516	(1,042,520)
Net change in cash and cash equivalents	1,119,654	(558,288)
Cash and cash equivalents		
Beginning of year	4,377,748	4,936,036
End of year	\$ 5,497,402	\$ 4,377,748

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's 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, 2014 and 2013 and for the years then ended.

Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of six 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.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed and are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. The amount also includes amounts received as interim payments against unpaid claims by certain payors.

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses write-off rate factors based on historical loss experience, current economic conditions, and other factors unique to the Hospital's customer base that affect the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare – The Hospital has been granted Critical Access Status under which the Hospital is paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The program has audited the year-end cost report filed with the Medicare program through December 31, 2012 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2013 through 2014 are reflected in estimated third-party settlements on the balance sheets. During 2013, the Hospital final settled the 2012 cost report and recognized an increase of approximately \$134,000 in the statements of revenues, expenses and changes in net position in 2014, due to differences between original estimates and subsequent revisions for the final settlement of the cost report.

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

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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 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 exceed \$5,000 and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

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

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 14 resulted in recognizing intangible assets for goodwill and similar items of \$1,962,024. The carrying amount of the assets will be amortized on a straight-line basis over a period of 5 to 10 years. Total amortization expense for each of the five subsequent years is \$238,102.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The Hospital recognizes EHR incentive payments as income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2014 and 2013, the Hospital recognized approximately \$371,000 and \$141,000, respectively, in EHR incentive payments as income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the statements of revenues, expenses, and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Grants and Contributions

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

Restricted Resources

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

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in the financial statements.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Fair Value of Financial Instruments

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

The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2014 and 2013, the carrying value of the Hospital's long-term debt approximates fair value based upon the borrowing rates currently available to the Hospital.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is organized as a not-for-profit corporation exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of December 31, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

Risk Management

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. NEW STANDARDS IMPLEMENTATION

During 2014, the Hospital implemented GASB Statement No. 69, Government Combinations and Disposals of Government Operations. The statement was issued in January 2013 and became effective for government combinations and disposals of government operations occurring financial reporting periods for periods beginning after December 15, 2013. This Statement established accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposal of government operations. The disclosures required by this statement enable the financial statement users to evaluate the nature and financial effects of those transactions. Goodwill created through a government acquisition is to be reported as a deferred outflow of resources and recognized as a component of depreciation and amortization expense attributed to future periods in a systematic and rational manner, considering the relevant circumstances of the acquisition. As a result of implementation of this guidance, amounts totaling \$1,695,989 and \$1,934,091 as December 31, 2014 and 2013, were reclassified from other assets to deferred outflows.

3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 18,782,837	\$ 14,995,322
Receivable from Medicare	1,536,524	3,628,153
Receivable from Medicaid	1,461,303	1,797,159
Total patient accounts receivable	<u>21,780,664</u>	<u>20,420,634</u>
Less:		
Allowance for contractual agreements	6,782,418	6,356,031
Allowance for doubtful accounts	3,566,801	3,751,192
Patient accounts receivable, net	<u>\$ 11,431,445</u>	<u>\$ 10,313,411</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 2,936,609	\$ 3,218,640
Payable to suppliers	8,708,774	6,206,113
Total accounts payable and accrued expenses	<u>\$ 11,645,383</u>	<u>\$ 9,424,753</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

5. 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 fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash and cash equivalents and certificates of deposit.

Fair value approximated cost as of December 31, 2014 and 2013. As of December 31, 2014 and 2013, 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, 2014				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents		\$ 2,623,110	\$ 2,623,110	\$ -0-	\$ -0-	\$ -0-
		December 31, 2013				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents		\$ 2,205,577	\$ 2,205,577	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit		1,250,000	1,250,000	-0-	-0-	-0-
		\$ 3,455,577	\$ 3,455,577	\$ -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.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013 is as follows:

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	489,726	5,030	(15,159)	-0-	479,597
Buildings and fixtures	26,380,840	32,950	(274,953)	14,883	26,153,720
Moveable equipment	8,318,521	104,334	(136,433)	-0-	8,286,422
Construction in progress	16,529	14,883	(16,529)	(14,883)	-0-
Total	35,801,832	157,197	(443,074)	-0-	35,515,955
Less accumulated depreciation					
Land improvements	369,340	21,648	(15,159)	-0-	375,829
Buildings and fixtures	9,535,273	765,611	(104,609)	-0-	10,196,275
Moveable equipment	5,602,055	715,489	(136,431)	-0-	6,181,113
Total accumulated depreciation	15,506,668	1,502,748	(256,199)	-0-	16,753,217
Capital assets, net	\$20,295,164	\$ (1,345,551)	\$ (186,875)	\$ -0-	\$18,762,738

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	472,590	18,612	(1,476)	-0-	489,726
Buildings and fixtures	24,131,834	232,327	(39,212)	2,055,891	26,380,840
Moveable equipment	8,043,840	581,173	(306,492)	-0-	8,318,521
Construction in progress	645,827	1,426,593	-0-	(2,055,891)	16,529
Total	33,890,307	2,258,705	(347,180)	-0-	35,801,832
Less accumulated depreciation					
Land improvements	345,615	25,201	(1,476)	-0-	369,340
Buildings and fixtures	8,828,237	746,248	(39,212)	-0-	9,535,273
Moveable equipment	5,174,794	731,779	(304,518)	-0-	5,602,055
Total accumulated depreciation	14,348,646	1,503,228	(345,206)	-0-	15,506,668
Capital assets, net	\$19,541,661	\$ 755,477	\$ (1,974)	\$ -0-	\$20,295,164

There were no significant outstanding commitments on capital assets as of December 31, 2014.

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

	2014	2013
Equipment	\$ 3,654,522	\$ 3,654,522
Accumulated depreciation	(2,539,696)	(2,188,026)
	<u>\$ 1,114,826</u>	<u>\$ 1,466,496</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

- The Hospital has entered into a Promissory Note of \$493,768 due in monthly installments of \$5,420 for 120 months at a fixed interest rate of 5.75% commencing on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023 will incur a fixed interest rate of 12% on the remaining balance until paid. The note is non-secured. The note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into several capital lease obligations with interest rates of 3.70% to 6.23%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$5,193 to \$13,949, including interest. Principal and interest payments are due through September 2017.

The Series 2007 and Series 2008 Promissory Notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2014, management believes that the Hospital was in compliance with the financial covenants.

The following represents a progression of long-term debt for 2014 and 2013:

	Balance December 31, 2013	Additional borrowings	Payments	Balance December 31, 2014	Current portion	Long-term portion
Loans Payable						
Capital Lease Obligations	\$ 1,030,870	\$ -0-	\$ (429,295)	\$ 601,575	324,106	\$ 277,469
Promissory Notes						
Series 2007	6,347,316	-0-	(205,416)	6,141,900	212,783	5,929,117
Series 2008	4,082,054	-0-	(132,520)	3,949,534	136,275	3,813,259
Rochester Orthopedics Building Note	1,713,830	-0-	(101,271)	1,612,559	92,303	1,520,256
Fulton County Medical Clinic Note 1	1,424,039	-0-	(113,449)	1,310,590	120,147	1,190,443
Fulton County Medical Clinic Note 2	481,464	-0-	(38,357)	443,107	40,621	402,486
Total long term debt	<u>\$ 15,079,573</u>	<u>\$ -0-</u>	<u>\$ (1,020,308)</u>	<u>\$ 14,059,265</u>	<u>\$ 926,235</u>	<u>\$ 13,133,030</u>
	Balance December 31, 2012	Additional borrowings	Payments	Balance December 31, 2013	Current portion	Long-term portion
Loans payable						
Capital lease obligations	\$ 1,448,295	\$ -0-	\$ (417,425)	\$ 1,030,870	429,186	\$ 601,684
Promissory Notes						
Series 2007	6,514,618	-0-	(167,302)	6,347,316	193,696	6,153,620
Series 2008	4,112,563	-0-	(30,509)	4,082,054	131,536	3,950,518
Rochester Orthopedics Building Note	695,827	1,018,003	-0-	1,713,830	100,121	1,613,709
Fulton County Medical Clinic Note 1	-0-	1,460,432	(36,393)	1,424,039	113,449	1,310,590
Fulton County Medical Clinic Note 2	-0-	493,768	(12,304)	481,464	38,357	443,107
Total long term debt	<u>\$ 12,771,303</u>	<u>\$ 2,972,203</u>	<u>\$ (663,933)</u>	<u>\$ 15,079,573</u>	<u>\$ 1,006,345</u>	<u>\$ 14,073,228</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

10. NET PATIENT SERVICE REVENUE

Patient service revenue for 2014 and 2013 consists of the following:

	2014	2013
Inpatient services	\$ 64,783,114	\$ 52,615,396
Outpatient services	81,736,271	73,354,680
Physician services	7,964,548	7,875,511
Gross patient service revenue	154,483,933	133,845,587
Contractual allowances	(54,677,214)	(49,865,527)
Compassionate care	(3,391,735)	(2,883,267)
Bad debt	(5,941,210)	(5,482,512)
Deductions from revenue	(64,010,159)	(58,231,306)
Net patient service revenue	<u>\$ 90,473,774</u>	<u>\$ 75,614,281</u>

11. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan, Woodlawn Hospital 403(b) Tax Deferred Annuity Plan, administered by Lincoln National Life Insurance Company as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute a portion of the annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees' contribution based on years of service. Employer contributions to the plan for the calendar year 2014 and 2013 were \$334,975 and \$298,481, respectively.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

14. 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 7 for further discussion of the promissory notes.

The Hospital also entered into a lease agreement with Kenneth E. Hoff, MD for medical office space for approximately \$212,000 per year. Rental expense recorded during 2014 and 2013 was approximately \$212,000 and \$88,000, respectively. Minimum future rental payments will be approximately \$212,000 for the next 5 years and \$758,609 in total thereafter.

15. 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 \$80,000 with an unlimited aggregate amount each year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$4,792,283 and \$3,678,436 for 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Unpaid claims, beginning of fiscal year	\$1,012,490	\$ 742,362
Incurred claims and changes in estimates	4,792,283	3,678,436
Claim payments	<u>(5,223,555)</u>	<u>(3,408,308)</u>
Unpaid claims, end of fiscal year	<u>\$ 581,218</u>	<u>\$1,012,490</u>

As of December 31, 2014 and 2013, the Hospital had approximately \$-0- and \$375,000 of reinsurance recovery receivables for stop loss claims recorded in other current assets in the balance sheets.