



**BOARD OF TRUSTEES MEETING**

**JUNE 13, 2016**

*CPAs / ADVISORS*



# **WOODLAWN HOSPITAL**

## TABLE OF CONTENTS DECEMBER 31, 2015 AND 2014

---

FINANCIAL STATEMENTS

BENCHMARKING

BOARD LETTER

# WOODLAWN HOSPITAL



ROCHESTER — INDIANA  
1400 East Ninth Street

## FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

CPAs / ADVISORS



# WOODLAWN HOSPITAL

## TABLE OF CONTENTS DECEMBER 31, 2015 AND 2014

---

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

---



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Woodlawn Hospital  
Rochester, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Woodlawn Hospital (the Hospital), which comprise the balance sheets as of December 31, 2015 and 2014, 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.

Board of Trustees  
Woodlawn Hospital  
Rochester, Indiana

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

*Blue & Co., LLC*

Indianapolis, Indiana  
June 13, 2016

**REQUIRED SUPPLEMENTARY INFORMATION**

# WOODLAWN HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

---

This section of Woodlawn Hospital's (Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the years ended December 31, 2015 and 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

### FINANCIAL HIGHLIGHTS

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

The change in total net position was increased by the addition of the long-term care operations by approximately \$1,979,000 in 2015 and \$1,499,000 in 2014.

### USING THIS ANNUAL REPORT

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

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

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

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

# WOODLAWN HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

### 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

	2015	2014	Change 2015-2014	2013	Change 2014-2013
<b>Assets</b>					
Current assets	\$ 25,862,384	\$ 19,994,704	\$ 5,867,680	\$ 16,643,431	\$ 3,351,273
Assets whose use is limited, net of current portion	2,382,329	1,538,110	844,219	2,105,577	(567,467)
Capital assets, net	19,487,840	18,762,738	725,102	20,295,164	(1,532,426)
Total assets	<u>\$ 47,732,553</u>	<u>\$ 40,295,552</u>	<u>\$ 7,437,001</u>	<u>\$ 39,044,172</u>	<u>\$ 1,251,380</u>
<b>Deferred outflows</b>					
Total assets and deferred outflows	<u>1,457,886</u>	<u>1,695,989</u>	<u>(238,103)</u>	<u>1,934,091</u>	<u>(238,102)</u>
	<u>\$ 49,190,439</u>	<u>\$ 41,991,541</u>	<u>\$ 7,198,898</u>	<u>\$ 40,978,263</u>	<u>\$ 1,013,278</u>
<b>Liabilities</b>					
Current liabilities	\$ 16,912,542	\$ 12,571,618	\$ 4,340,924	\$ 10,431,098	\$ 2,140,520
Long-term debt	13,564,272	13,133,030	431,242	14,073,228	(940,198)
Total liabilities	<u>30,476,814</u>	<u>25,704,648</u>	<u>4,772,166</u>	<u>24,504,326</u>	<u>1,200,322</u>
<b>Net position</b>					
Net investment in capital assets	4,774,969	4,703,473	71,496	5,215,591	(512,118)
Unrestricted	13,938,656	11,583,420	2,355,236	11,258,346	325,074
Total net position	<u>18,713,625</u>	<u>16,286,893</u>	<u>2,426,732</u>	<u>16,473,937</u>	<u>(187,044)</u>
Total liabilities and net position	<u>\$ 49,190,439</u>	<u>\$ 41,991,541</u>	<u>\$ 7,198,898</u>	<u>\$ 40,978,263</u>	<u>\$ 1,013,278</u>

# WOODLAWN HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

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

The most significant changes in the Hospital's 2014 assets were in the areas of current assets which increased approximately \$3,351,000 and capital assets, net which decreased approximately \$1,532,000. The changes can be attributed to the addition of long-term care assets and depreciation on capital assets. The most significant change in the Hospital's 2014 liabilities was in the area of current liabilities, which increased approximately \$2,141,000. The change can be attributed to the addition of long-term care operations.

### Operating Results and Changes in Net Position

	2015	2014	Change 2015-2014	2013	Change 2014-2013
<b>Revenues</b>					
Net patient service revenue	\$ 121,002,606	\$ 90,473,774	\$ 30,528,832	\$ 75,614,281	\$ 14,859,493
Other operating revenue	860,396	1,110,827	(250,431)	1,517,586	(406,759)
Total operating revenues	<u>121,863,002</u>	<u>91,584,601</u>	<u>30,278,401</u>	<u>77,131,867</u>	<u>14,452,734</u>
<b>Expenses</b>					
Salaries and benefits	31,732,085	30,106,603	1,625,482	26,896,049	3,210,554
Supplies	7,300,334	7,353,912	(53,578)	7,409,944	(56,032)
Depreciation and amortization	1,732,581	1,736,662	(4,081)	1,531,163	205,499
Other operating expenses	78,202,429	51,932,802	26,269,627	38,674,538	13,258,264
Total expenses	<u>118,967,429</u>	<u>91,129,979</u>	<u>27,837,450</u>	<u>74,511,694</u>	<u>16,618,285</u>
Operating income (loss)	2,895,573	454,622	2,440,951	2,620,173	(2,165,551)
Non-operating expenses, net	<u>(468,841)</u>	<u>(641,666)</u>	<u>172,825</u>	<u>(699,869)</u>	<u>58,203</u>
Change in net position	2,426,732	(187,044)	2,613,776	1,920,304	(2,107,348)
<b>Net position beginning of year</b>	16,286,893	16,473,937	(187,044)	14,553,633	1,920,304
<b>Net position end of year</b>	<u>\$ 18,713,625</u>	<u>\$ 16,286,893</u>	<u>\$ 2,426,732</u>	<u>\$ 16,473,937</u>	<u>\$ (187,044)</u>

During 2015, the Hospital had a gain on equity of approximately 15% compared to a loss on equity of approximately 1% in the prior year.

# WOODLAWN HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

---

This following section highlights the major financial factors for 2015:

- The Hospital's patient days increased to 4,017 in 2015 compared to 3,815 in 2014 and 4,398 in 2013.
- The Hospital's net patient services revenue increased approximately \$30,529,000 in 2015 and increased approximately \$14,859,000 in 2014. The net patient services revenue was enhanced by the addition of long-term care operations during 2015 and 2014 by approximately \$69,718,000 and \$42,540,000, respectively.
- Operating expenses increased approximately \$27,837,000 or 31% in 2015 and increased approximately \$16,618,000 or 22% in 2014. The change in 2015 and 2014 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 \$26,270,000 or 51% in 2015 and increased approximately \$13,258,000 or 34% in 2014. The change in 2015 and 2014 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?"

	2015	2014	Change 2015-2014	2013	Change 2014-2013
<b>Cash flow from activities</b>					
Operating	\$ 5,853,834	\$ 1,683,467	\$ 4,170,367	\$ 2,925,689	\$ (1,242,222)
Noncapital financing	163,197	17,800	145,397	27,919	(10,119)
Capital and related financing	(2,223,034)	(1,842,147)	(380,887)	(2,469,376)	627,229
Investing	25,022	1,260,534	(1,235,512)	(1,042,520)	2,303,054
Change in cash and cash equivalents	<u>\$ 3,819,019</u>	<u>\$ 1,119,654</u>	<u>\$ 2,699,365</u>	<u>\$ (558,288)</u>	<u>\$ 1,677,942</u>

Total cash and cash equivalents increased approximately \$3,819,000 in 2015 and increased by approximately \$1,120,000 in 2014. Operating activities generated cash and cash equivalents of approximately \$5,854,000 during 2015 and approximately \$1,683,000 during 2014 mainly from cash received from patients and third-parties. Capital and related financing decreased cash and cash equivalents by approximately \$2,223,000 during 2015 and by approximately \$1,839,000 during 2014 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 approximately \$25,000 in 2015 and by approximately \$1,258,000 in 2014 due to transfer of funds to and from the assets whose use is limited investments.

---

# WOODLAWN HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

---

### SOURCES OF REVENUE

During 2015, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented approximately 38%, 40%, and 42% of the Hospital's acute care gross revenues in 2015, 2014 and 2013, respectively. The Hospital's acute care outpatient and physician services represented 81%, 79% and 77% of the Hospital's gross patient revenue in 2015, 2014 and 2013, respectively.

Following is a table of major sources of Hospital acute care gross patient revenues for 2015, 2014 and 2013:

	2015	2014	2013
Medicare	26%	29%	31%
Medicaid	12%	11%	11%
Blue Cross	24%	21%	21%
Other	34%	32%	29%
Self Pay	4%	7%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### CAPITAL ASSETS

During 2015 and 2014, the Hospital invested approximately \$2,234,000 and \$157,000, respectively, in capital assets. The net change in capital assets is outlined in the following table:

	2015	2014	Change 2015 - 2014	2013	Change 2014 - 2013
Land and improvements	\$ 1,085,863	\$ 1,075,813	\$ 10,050	\$ 1,085,942	\$ (10,129)
Buildings and improvements	26,898,355	26,153,720	744,635	26,380,840	(227,120)
Equipment	9,383,684	8,286,422	1,097,262	8,318,521	(32,099)
Construction in process	39,725	-0-	39,725	16,529	(16,529)
Total property and equipment	<u>37,407,627</u>	<u>35,515,955</u>	<u>1,891,672</u>	<u>35,801,832</u>	<u>(285,877)</u>
Less accumulated depreciation	<u>17,919,787</u>	<u>16,753,217</u>	<u>1,166,570</u>	<u>15,506,668</u>	<u>1,246,549</u>
Capital assets, net	<u>\$ 19,487,840</u>	<u>\$ 18,762,738</u>	<u>\$ 725,102</u>	<u>\$ 20,295,164</u>	<u>\$ (1,532,426)</u>

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

# **WOODLAWN HOSPITAL**

## **MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014**

---

### **DEBT**

Total debt increased from \$14,059,265 to \$14,713,000 in 2015 due to capital leases being entered into during the year. Total debt decreased from \$15,079,573 to \$14,053,265 in 2014 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**

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, 2015 AND 2014

---

### ASSETS AND DEFERRED OUTFLOWS

	2015	2014
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,784,092	\$ 2,874,292
Patient accounts receivable, net	14,582,811	11,431,445
Inventories	1,225,923	1,064,977
Estimated third party settlements	109,555	1,304,251
Other current assets	3,010,003	2,234,739
Current portion of assets whose use is limited	1,150,000	1,085,000
Total current assets	<u>25,862,384</u>	<u>19,994,704</u>
<b>Assets whose use is limited</b>		
Board designated	3,532,329	2,623,110
Total assets whose use is limited	<u>3,532,329</u>	<u>2,623,110</u>
Less current portion of assets whose use is limited	<u>(1,150,000)</u>	<u>(1,085,000)</u>
Assets whose use is limited, net of current portion	2,382,329	1,538,110
<b>Capital assets</b>		
Land	596,216	596,216
Depreciable capital assets, net	18,891,624	18,166,522
Total capital assets	<u>19,487,840</u>	<u>18,762,738</u>
Total assets	47,732,553	40,295,552
<b>Deferred outflows</b>	<u>1,457,886</u>	<u>1,695,989</u>
Total assets and deferred outflows	<u>\$ 49,190,439</u>	<u>\$ 41,991,541</u>

---

See accompanying notes to financial statements.

# WOODLAWN HOSPITAL

## BALANCE SHEETS DECEMBER 31, 2015 AND 2014

---

### LIABILITIES AND NET POSITION

	2015	2014
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 13,365,688	\$ 8,708,774
Accrued salaries and related liabilities	2,398,255	2,936,609
Current portion capital leases	520,135	324,106
Current portion long-term debt	628,464	602,129
Total current liabilities	<u>16,912,542</u>	<u>12,571,618</u>
<b>Long-term debt and capital leases</b>		
Capital leases	1,337,761	277,469
Long-term debt	12,226,511	12,855,561
Total long-term debt	<u>13,564,272</u>	<u>13,133,030</u>
Total liabilities	30,476,814	25,704,648
<b>Net position</b>		
Net investment in capital assets	4,774,969	4,703,473
Unrestricted	13,938,656	11,583,420
Total net position	<u>18,713,625</u>	<u>16,286,893</u>
Total liabilities and net position	<u>\$ 49,190,439</u>	<u>\$ 41,991,541</u>

---

See accompanying notes to financial statements.

## WOODLAWN HOSPITAL

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Revenues</b>		
Net patient service revenue	\$ 121,002,606	\$ 90,473,774
Other operating revenue	860,396	1,110,827
Total operating revenue	<u>121,863,002</u>	<u>91,584,601</u>
<b>Expenses</b>		
Salaries and wages	24,046,361	23,079,831
Employee benefits	7,685,724	7,026,772
Purchased services	63,268,363	40,839,651
Supplies	7,300,334	7,353,912
Rent	5,923,379	3,750,954
Utilities	3,296,499	2,187,154
Repairs and maintenance	2,481,208	1,971,449
Insurance	1,249,865	990,484
Depreciation and amortization	1,732,581	1,736,662
Hospital Assessment Fee	893,434	1,029,977
Other	1,089,681	1,163,133
Total operating expenses	<u>118,967,429</u>	<u>91,129,979</u>
Operating income	2,895,573	454,622
<b>Nonoperating revenue (expense)</b>		
Investment income	9,288	7,516
Interest expense	(657,643)	(665,812)
Gain (loss) on disposition of assets	16,317	(1,170)
Other nonoperating income	163,197	17,800
Total nonoperating revenue (expense)	<u>(468,841)</u>	<u>(641,666)</u>
Changes in net position	2,426,732	(187,044)
<b>Net position</b>		
Beginning of year	16,286,893	16,473,937
End of year	<u>\$ 18,713,625</u>	<u>\$ 16,286,893</u>

See accompanying notes to financial statements.

# WOODLAWN HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 118,152,502	\$ 87,071,415
Cash paid to employees for wages and benefits	(32,270,439)	(30,388,634)
Cash paid to vendors for goods and services	(80,888,625)	(56,110,141)
Other operating receipts, net	860,396	1,110,827
Net cash from operating activities	<u>5,853,834</u>	<u>1,683,467</u>
<b>Noncapital financing activities</b>		
Other nonoperating	163,197	17,800
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(434,071)	(157,197)
(Gain) loss on sale of fixed assets	(16,317)	1,170
Proceeds from sale of fixed assets	31,060	-0-
Interest paid on long-term debt	(657,643)	(665,812)
Principal payments on long-term debt and capital leases, net	<u>(1,146,063)</u>	<u>(1,020,308)</u>
Net cash from capital and related financing activities	<u>(2,223,034)</u>	<u>(1,842,147)</u>
<b>Investing activities</b>		
Investment income	9,288	7,516
Assets whose use is limited proceeds	2,415,734	1,253,018
Assets whose use is limited purchases	(2,400,000)	-0-
Net cash from investing activities	<u>25,022</u>	<u>1,260,534</u>
Net change in cash and cash equivalents	3,819,019	1,119,654
<b>Cash and cash equivalents</b>		
Beginning of year	5,497,402	4,377,748
End of year	<u>\$ 9,316,421</u>	<u>\$ 5,497,402</u>

See accompanying notes to financial statements.

# WOODLAWN HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 2,895,573	\$ 454,622
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,732,581	1,736,662
Provision for bad debt	4,674,144	5,941,210
Changes in assets and liabilities		
Patient accounts receivable	(7,825,510)	(7,059,244)
Inventories	(160,946)	85,257
Estimated third-party settlements	1,194,696	(1,254,348)
Other current assets	(775,264)	(441,322)
Accounts payable and accrued expenses	4,656,914	2,502,661
Accrued salaries and related liabilities	(538,354)	(282,031)
Net cash flows from operating activities	<u>\$ 5,853,834</u>	<u>\$ 1,683,467</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In cash and cash equivalents	\$ 5,784,092	\$ 2,874,292
In assets whose use is limited	3,532,329	2,623,110
Total cash and cash equivalents	<u>\$ 9,316,421</u>	<u>\$ 5,497,402</u>

See accompanying notes to financial statements.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 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, 2015 and 2014 and for the years then ended.

#### Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of nine 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 management 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 2016. 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, 2015 AND 2014

---

### 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Enterprise Fund Accounting

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

### 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 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 payors 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.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

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 2015 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.

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

### Indiana Hospital Assessment Fee Program

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by the Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates.

During 2015 and 2014, the Hospital recognized HAF expense of approximately \$893,000 and \$1,030,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in the statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the statements of revenues, expenses and changes in net position. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

---

**WOODLAWN HOSPITAL**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

---

Compassionate Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates based on a sliding scale set at 200% of the Federal poverty index. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Inventories

Inventories consist mainly of medical supplies and are valued at the lower of cost or market with cost being determined on an average cost method.

Assets Whose Use is Limited

Assets whose use is limited are stated at cost which approximates fair value in the 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

---

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 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.

### Net Position

Net position of the Hospital is classified in three components. Net position invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including required amounts deposited with trustees. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted. There is no restricted net position in 2015 and 2014.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare program. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases 25% each payment year until it is completely phased out in the fifth year.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

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 2015 and 2014, the Hospital recognized approximately \$13,000 and \$371,000, 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.

### Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was \$235,663 and \$306,762 for 2015 and 2014, respectively.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### Statements of Revenues, Expenses, and Changes in Net Position

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

### Statements of Cash Flows

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

Additional cash flow information is as follows:

	<u>2015</u>	<u>2014</u>
Supplemental cash flows information		
Cash paid for interest	\$ 657,643	\$ 665,812

### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

### Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third party settlements and long-term debt. The carrying amounts reported in the 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.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

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, 2015 and 2014, 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, 2015 and 2014, 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.

### Medical Malpractice

The Hospital participates in the Indiana Medical Malpractice Act, which limits the maximum recovery to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund. The Hospital carries a claims made basis insurance policy covering the Hospital's \$250,000 of exposure per claim. Accordingly, the Hospital has not recorded any provision for self-insured medical malpractice claims.

### Litigation

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

---

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### Reclassification

Certain 2014 balances were reclassified to agree with the current year presentation. There was no impact on assets, liabilities, and total net position.

### 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 June 13, 2016.

## **2. ACCOUNTS RECEIVABLE AND PAYABLE**

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2015 and 2014 is as follows:

	2015	2014
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 13,343,611	\$ 12,617,026
Receivable from Medicare	2,536,663	2,501,426
Receivable from Medicaid	1,651,126	1,631,883
Receivable from long-term care operations	7,604,059	4,707,238
Total patient accounts receivable	<u>25,135,459</u>	<u>21,457,573</u>
Less:		
Allowance for contractual agreements	7,546,649	6,782,418
Allowance for doubtful accounts	3,005,999	3,243,710
Patient accounts receivable, net	<u>\$ 14,582,811</u>	<u>\$ 11,431,445</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	\$ 2,398,255	\$ 2,936,609
Payable to suppliers	13,365,688	8,708,774
Total accounts payable and accrued expenses	<u>\$ 15,763,943</u>	<u>\$ 11,645,383</u>

**WOODLAWN HOSPITAL**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

**3. ASSETS WHOSE USE IS LIMITED**

Noncurrent cash and investments internally designated include the following:

Board Designated Funds

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes. These assets are considered short term for all assets whose maturity date is one year or less from the year end date.

The following represents assets whose use is limited as of December 31, 2015 and 2014:

	2015	2014
Cash and cash equivalents	\$ 632,329	\$ 2,623,110
Certificates of Deposit	2,900,000	-0-
	\$ 3,532,329	\$ 2,623,110

**4. 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, 2015 and 2014. As of December 31, 2015 and 2014, 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, 2015				
		Investment Maturities (in years)				
	Carrying Amount	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	\$ 632,329	\$ 632,329	\$ -0-	\$ -0-	\$ -0-	
Certificates of deposit	2,900,000	2,900,000	-0-	-0-	-0-	
	\$ 3,532,329	\$ 3,532,329	\$ -0-	\$ -0-	\$ -0-	
		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-	
	\$ 2,623,110	\$ 2,623,110	\$ -0-	\$ -0-	\$ -0-	

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Carrying amount		
Deposits	\$ 5,784,092	\$ 2,874,292
Investments	3,532,329	2,623,110
	<u>\$ 9,316,421</u>	<u>\$ 5,497,402</u>
	<u>2015</u>	<u>2014</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 5,784,092	\$ 2,874,292
Board designated	3,532,329	2,623,110
	<u>\$ 9,316,421</u>	<u>\$ 5,497,402</u>

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014 is as follows:

	Balance December 31,				Balance
	2014	Additions	Retirements	Transfers	December 31, 2015
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	479,597	10,050	-0-	-0-	489,647
Buildings and fixtures	26,153,720	685,803	(5,903)	64,735	26,898,355
Moveable equipment	8,286,422	1,371,878	(336,165)	61,549	9,383,684
Construction in progress	-0-	166,009	-0-	(126,284)	39,725
<b>Total</b>	<b>35,515,955</b>	<b>2,233,740</b>	<b>(342,068)</b>	<b>-0-</b>	<b>37,407,627</b>
Less accumulated depreciation					
Land improvements	375,829	16,537	-0-	-0-	392,366
Buildings and fixtures	10,196,275	748,343	(5,903)	-0-	10,938,715
Moveable equipment	6,181,113	729,015	(321,422)	-0-	6,588,706
<b>Total accumulated depreciation</b>	<b>16,753,217</b>	<b>1,493,895</b>	<b>(327,325)</b>	<b>-0-</b>	<b>17,919,787</b>
<b>Capital assets, net</b>	<b>\$ 18,762,738</b>	<b>\$ 739,845</b>	<b>\$ (14,743)</b>	<b>\$ -0-</b>	<b>\$ 19,487,840</b>
	Balance December 31,				Balance
	2013	Additions	Retirements	Transfers	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-
<b>Total</b>	<b>35,801,832</b>	<b>157,197</b>	<b>(443,074)</b>	<b>-0-</b>	<b>35,515,955</b>
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
<b>Total accumulated depreciation</b>	<b>15,506,668</b>	<b>1,502,748</b>	<b>(256,199)</b>	<b>-0-</b>	<b>16,753,217</b>
<b>Capital assets, net</b>	<b>\$ 20,295,164</b>	<b>\$ (1,345,551)</b>	<b>\$ (186,875)</b>	<b>\$ -0-</b>	<b>\$ 18,762,738</b>

There were no significant outstanding commitments on capital assets as of December 31, 2015.

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

	2015	2014
Equipment	\$ 5,512,450	\$ 3,654,522
Accumulated depreciation	(2,994,489)	(2,539,696)
	<b>\$ 2,517,961</b>	<b>\$ 1,114,826</b>

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 6. LONG-TERM DEBT

A summary of long-term debt as of December 31, 2015 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% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by the related real estate with an approximate net book value of \$11,497,000. This note was issued for the renovation and expansion of Woodlawn Hospital and its parking facilities together with the purchase of the project equipment.
- The Hospital's \$4,700,000, Series 2008 Promissory Note is due in monthly installments of \$26,916 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by the related real estate with an approximate net book value of \$11,497,000. The note was issued for the acquisition, construction, installation, and equipping of a medical office building together with the purchase of the project equipment.
- The Hospital has entered into a Promissory Note of \$1,768,000 due in monthly installments of \$11,955 for 120 months at a fixed interest rate of 2.66% commencing on December 18, 2012. The Promissory Note is secured by the related real estate with an approximate net book value of \$1,547,000.
- The Hospital has entered into a Promissory Note of \$1,460,432 due in monthly installments of \$16,031 for 120 months at a fixed interest rate of 5.75% 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 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 1.59% to 6.23%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$5,193 to \$24,647, including interest. Principal and interest payments are due through June 2021.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The Series 2007 and Series 2008 Promissory Notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2015, management believes that the Hospital was in compliance with the financial covenants.

The following represents a progression of long-term debt for 2015 and 2014:

	Balance December 31, 2014	Additional borrowings	Payments	Balance December 31, 2015	Current portion	Long-term portion
<b>Loans Payable</b>						
Capital lease obligations	\$ 601,575	\$ 1,799,669	\$ (543,348)	\$ 1,857,896	520,135	\$ 1,337,761
<b>Promissory Notes</b>						
Series 2007	6,141,900	-0-	(206,324)	5,935,576	225,200	5,710,376
Series 2008	3,949,534	-0-	(133,078)	3,816,456	144,325	3,672,131
Rochester Orthopedics Building Note	1,612,559	-0-	(102,545)	1,510,014	88,678	1,421,336
Fulton County Medical Clinic Note 1	1,310,590	-0-	(120,147)	1,190,443	127,241	1,063,202
Fulton County Medical Clinic Note 2	443,107	-0-	(40,621)	402,486	43,020	359,466
<b>Total long term debt</b>	<b>\$ 14,059,265</b>	<b>\$ 1,799,669</b>	<b>\$ (1,146,063)</b>	<b>\$ 14,712,871</b>	<b>\$ 1,148,599</b>	<b>\$ 13,564,272</b>

  

	Balance December 31, 2013	Additional borrowings	Payments	Balance December 31, 2014	Current portion	Long-term portion
<b>Loans payable</b>						
Capital lease obligations	\$ 1,030,870	\$ -0-	\$ (429,295)	\$ 601,575	324,106	\$ 277,469
<b>Promissory Notes</b>						
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
<b>Total long term debt</b>	<b>\$ 15,079,573</b>	<b>\$ -0-</b>	<b>\$ (1,020,308)</b>	<b>\$ 14,059,265</b>	<b>\$ 926,235</b>	<b>\$ 13,133,030</b>

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2016	\$ 1,148,599	\$ 620,101	\$ 1,768,700
2017	1,020,061	579,611	1,599,672
2018	981,258	541,284	1,522,542
2019	1,020,130	502,411	1,522,541
2020	1,060,810	461,731	1,522,541
2021-2025	3,931,477	1,719,252	5,650,729
2026-2030	3,679,077	881,380	4,560,457
2031-2033	1,871,459	115,975	1,987,434
	<b>\$ 14,712,871</b>	<b>\$ 5,421,745</b>	<b>\$ 20,134,616</b>

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### **7. LINE OF CREDIT**

In August 2012, the Hospital obtained a \$700,000 revolving line of credit with Lake City Bank. The 12-month line of credit is secured by all inventory, accounts, equipment, and general intangibles with an approximate net book value of \$18,819,000. 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 was extended in 2013 with a maturity date in August 2018, at which time all unpaid principal is due. As of December 31, 2015 and 2014, the Hospital has not drawn down against the line of credit.

### **8. COMPASSIONATE CARE**

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its companionate care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved compassionate care balances, the charges are not reflected in net revenue. Rather, charges approved for compassionate care are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient revenue.

The Hospital's provided service to compassionate care patients for an estimated cost of \$812,000 and \$1,507,000 during 2015 and 2014, respectively. The estimated costs of providing compassionate care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to compassionate care patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2015 and 2014 consists of the following:

	2015	2014
Inpatient services	\$ 93,609,380	\$ 64,783,114
Outpatient services	90,110,953	81,736,271
Physician services	8,818,845	7,964,548
	<hr/>	<hr/>
Gross patient service revenue	192,539,178	154,483,933
Contractual allowances	(64,999,964)	(54,677,214)
Compassionate care	(1,862,464)	(3,391,735)
Bad debt	(4,674,144)	(5,941,210)
Deductions from revenue	<hr/> (71,536,572) <hr/>	<hr/> (64,010,159) <hr/>
Net patient service revenue	<hr/> <hr/> \$ 121,002,606	<hr/> <hr/> \$ 90,473,774

### 10. 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 2015 and 2014 were \$373,103 and \$334,975, respectively.

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 11. OPERATING LEASES

The Hospital has leases expiring at various times through 2023. 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 2015 and 2014 was approximately \$5,923,000 and \$3,751,000, respectively. Minimum future payments on non-cancellable leases for the years following December 31, 2015 are as follows:

Year Ending December 31,	Amount
2016	\$ 211,716
2017	211,716
2018	211,716
2019	211,716
2020	211,716
Thereafter	546,933
	<u>\$ 1,605,513</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$4,965,000 and \$2,746,000 for 2015 and 2014, respectively.

### 12. CONCENTRATION OF CREDIT RISK

Woodlawn Hospital is located in Rochester, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of acute care gross receivables and revenue from patients and third-party payors as of December 31, 2015 and 2014 was as follows:

	Receivables		Revenues	
	2015	2014	2015	2014
Medicare	14%	15%	26%	29%
Medicaid	9%	10%	12%	11%
Blue Cross	17%	12%	24%	21%
Other commercial payors	34%	31%	34%	32%
Self-pay	26%	32%	4%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

---

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### 13. GOVERNMENT ACQUISITIONS

On August 1, 2013, the Hospital acquired the medical practice owned by Kenneth E. Hoff, M.D., P.C., d/b/a Fulton County Medical Clinic (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 2015 and 2014 was approximately \$212,000 each year, respectively. Minimum future rental payments will be approximately \$212,000 for the next 5 years and \$546,933 in total thereafter.

### 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 \$80,000 with an unlimited aggregate amount each year. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$5,346,000 and \$4,792,000 for 2015 and 2014, 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:

	2015	2014
Unpaid claims, beginning of fiscal year	\$ 581,218	\$ 1,012,490
Incurred claims and changes in estimates	5,346,350	4,792,283
Claim payments	(5,118,643)	(5,223,555)
Unpaid claims, end of fiscal year	<u>\$ 808,925</u>	<u>\$ 581,218</u>

# WOODLAWN HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

---

### **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.

The Hospital recorded contributions from the Foundation of approximately \$57,000 and \$199,000 in 2015 and 2014, respectively, recorded in other nonoperating income.

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

### **16. UPCOMING GASB PRONOUNCEMENTS**

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 72, Fair Value Measurement and Application, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statements users about the impact of fair value measurements on a government's financial position.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, issued June 2015, will be effective for periods beginning after June 15, 2015. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.