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June 9, 2020

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

We have reviewed the audit report of Woodlawn Hospital, which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of the Woodlawn Hospital as of December 31, 2019, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

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

Paul D. Joyce, CPA
State Examiner



FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

CPAs / ADVISORS



WOODLAWN HOSPITAL

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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), a component unit of Fulton County, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

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, 2019, and its respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of the Hospital as of December 31, 2018, were audited by other auditors whose opinion, dated April 30, 2019, expressed an unmodified opinion on those financial statements.

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
May 11, 2020

REQUIRED SUPPLEMENTARY INFORMATION

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Management's discussion and analysis of Woodlawn Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2019 with comparable information for 2018 and 2017. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements included in this report.

USING THIS ANNUAL REPORT

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

- In the "*management's discussion and analysis*" section of this report, management discusses various components of the annual report and provide an analysis of the current financial statement information.
- The "*financial statements*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Balance Sheets reveal the assets, deferred outflows, liabilities, and net position of the Hospital on December 31, 2019 and 2018 while the Statements of Revenues, Expenses and Changes in Net Position summarize the revenues and expenses, including nonoperating items for the years then ended. Statements of Cash Flows summarize the change in cash and cash equivalents as a result of operating, investing and financing activities during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$1,021,000 and \$687,000 in 2019 and 2018, respectively.
- Operating income decreased by approximately by \$540,000 and \$1,534,000 or 28% and 45% in 2019 and 2018, respectively.

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all deferred outflows of resources and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

These two statements report the Hospital's net position and changes in them. Think of the Hospital's net position—the difference between assets, deferred outflows of resources and liabilities—is one measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, however, such as changes in the Hospital's patient base, changes in legislation or regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Hospital's net position is the difference between its assets and deferred outflows and liabilities. The following information documents in summary the net position and the changes in net position related to activities of the Hospital as of December 31, 2019 and 2018 and for the years then ended.

Table 1 – Balance Sheets

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Assets					
Current assets	\$ 31,084,196	\$ 32,960,945	\$ (1,876,749)	\$ 35,116,082	\$ (2,155,137)
Assets whose use is limited	3,066,234	1,180,651	1,885,583	513,466	667,185
Capital assets, net	16,742,176	17,062,578	(320,402)	18,976,576	(1,913,998)
Total assets	50,892,606	51,204,174	(311,568)	54,606,124	(3,401,950)
Deferred outflows	617,210	771,512	(154,302)	981,682	(210,170)
Total assets and deferred outflows	<u>\$ 51,509,816</u>	<u>\$ 51,975,686</u>	<u>\$ (465,870)</u>	<u>\$ 55,587,806</u>	<u>\$ (3,612,120)</u>
Liabilities					
Current liabilities	\$ 19,056,327	\$ 18,933,768	\$ 122,559	\$ 22,082,532	\$ (3,148,764)
Long-term debt	9,154,894	10,764,460	(1,609,566)	11,914,977	(1,150,517)
Total liabilities	28,211,221	29,698,228	(1,487,007)	33,997,509	(4,299,281)
Net position					
Net investment in capital assets	5,284,733	5,152,025	132,708	5,904,173	(752,148)
Unrestricted	18,013,862	17,125,433	888,429	15,686,124	1,439,309
Total net position	23,298,595	22,277,458	1,021,137	21,590,297	687,161
Total liabilities and net position	<u>\$ 51,509,816</u>	<u>\$ 51,975,686</u>	<u>\$ (465,870)</u>	<u>\$ 55,587,806</u>	<u>\$ (3,612,120)</u>

The following discussion includes changes from 2018 to 2019. The significant changes in the Hospital's assets included current assets, which decreased by approximately \$1,877,000, and assets whose use is limited, which increased by approximately \$1,886,000. Current assets decreased due to transfers of cash and cash equivalents to assets whose use is limited as well as a decrease in patient accounts receivable, net due fluctuations in payor mix and increased allowances on aged balances. Assets whose use is limited primarily increased due to purchases of investments and positive market conditions in 2019. The significant change in the Hospital's liabilities was long-term debt, which decreased by approximately \$1,610,000. Long-term debt decreased due to current year principal payments. The net position increased approximately \$1,021,000 due to operating income, which was partially offset by non-operating expenses, net.

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

The following discussion includes changes from 2017 to 2018. The significant changes in the Hospital's assets included current assets, which decreased by approximately \$2,155,000, and capital assets, net, which decreased by approximately \$1,914,000. Current assets decreased due to transfers of cash and cash equivalents to assets whose use is limited as well as the termination of certain long-term care operations. Capital assets decreased due to annual depreciation expense and a loss on disposal of capital assets due to the termination of certain long-term care operations. The significant changes in the Hospital's liabilities included current liabilities, which decreased approximately \$3,149,000, and long-term debt, which decreased by approximately \$1,151,000. Current liabilities decreased due to the termination of certain long-term care operations. Long-term debt decreased due to current year principal payments. The net position increased approximately \$687,000 due to operating income, which was partially offset by non-operating expenses, net.

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

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Operating revenues					
Net patient service revenue	\$ 180,297,439	\$ 165,813,257	\$ 14,484,182	\$ 167,850,177	\$ (2,036,920)
Other operating revenue	739,388	431,702	307,686	1,298,546	(866,844)
Total operating revenues	181,036,827	166,244,959	14,791,868	169,148,723	(2,903,764)
Operating expenses					
Salaries and benefits	35,410,408	33,960,584	1,449,824	33,172,032	788,552
Purchased services	108,923,873	96,625,564	12,298,309	100,396,298	(3,770,734)
Depreciation and amortization	1,637,262	1,757,400	(120,138)	1,868,239	(110,839)
Other operating expenses	33,692,538	31,988,239	1,704,299	30,264,952	1,723,287
Total operating expenses	179,664,081	164,331,787	15,332,294	165,701,521	(1,369,734)
Operating income	1,372,746	1,913,172	(540,426)	3,447,202	(1,534,030)
Non-operating expenses, net	(351,609)	(1,226,011)	874,402	(600,623)	(625,388)
Change in net position	1,021,137	687,161	333,976	2,846,579	(2,159,418)
Net position beginning of year	22,277,458	21,590,297	687,161	18,743,718	2,846,579
Net position end of year	<u>\$ 23,298,595</u>	<u>\$ 22,277,458</u>	<u>\$ 1,021,137</u>	<u>\$ 21,590,297</u>	<u>\$ 687,161</u>

SOURCES OF REVENUE

During 2019 and 2018, 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 39% and 41% of the Hospital's gross revenues in 2019 and 2018, respectively. Revenues from managed care entities covering Medicaid patients are reflected in other commercial payors.

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Following is a table of major sources of gross patient revenues for 2019, 2018, and 2017:

	2019	2018	2017
Medicare	29%	31%	31%
Medicaid	10%	10%	11%
Blue Cross	22%	21%	22%
Other commercial payors	36%	35%	33%
Self-pay	3%	3%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital's outpatient services represented approximately 40% and 44% of the Hospital's gross patient revenue in 2019 and 2018, respectively.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's net position increased by approximately \$1,021,000 and \$687,000 during 2019 and 2018, respectively, as shown in Table 2. The Hospital's return on net position was approximately 4.6%, 3.2%, and 15.2% for the years ended December 31, 2019, 2018, and 2017, respectively.

This following section highlights the major financial factors for 2019 and 2018:

- Net patient service revenue was approximately \$180,000,000 in 2019, which increased approximately \$14,000,000 from 2018. Operating expenses increased approximately \$15,000,000 or 9.3%, primarily due to increased patient activity and services performed. Net patient service revenue was approximately \$166,000,000 in 2018, which decreased approximately \$2,000,000 from 2017. Operating expenses decreased approximately \$1,400,000 or 0.8%, primarily due to changes in long-term care operations.
- Purchased services was the expense classification with the largest increase from 2018, increasing approximately \$12,000,000 or 12.7% in conjunction with net patient service revenue and services performed by contracted professionals. Purchased services decreased from 2017 to 2018 by approximately \$3,800,000 or 3.8%, due to changes in long-term care operations.

THE STATEMENT OF CASH FLOWS

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

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

Table 3 – Statements of Cash Flows

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Cash flow from (used in) activities					
Operating	\$ 2,393,012	\$ 896,310	\$ 1,496,702	\$ 5,972,787	\$ (5,076,477)
Capital and related financing	(2,147,338)	(2,142,615)	(4,723)	(2,731,628)	589,013
Investing	(339,939)	(1,152,333)	812,394	340,000	(1,492,333)
Change in cash and cash equivalents	<u>\$ (94,265)</u>	<u>\$ (2,398,638)</u>	<u>\$ 2,304,373</u>	<u>\$ 3,581,159</u>	<u>\$ (5,979,797)</u>
Cash and cash equivalents					
Beginning of year	<u>\$ 10,763,694</u>	<u>\$ 13,162,332</u>		<u>\$ 9,581,173</u>	
End of year	<u>\$ 10,669,429</u>	<u>\$ 10,763,694</u>		<u>\$ 13,162,332</u>	

Total cash and cash equivalents decreased approximately \$94,000 and \$2,399,000 in 2019 and 2018, respectively. Total cash and cash equivalents increased approximately \$3,581,000 in 2017. Operating activities generated cash and cash equivalents of approximately \$2,393,000, \$896,000, and \$5,972,000 during 2019, 2018, and 2017, respectively, mainly from cash received from patients and third party payors. Capital and related financing decreased cash and cash equivalents by approximately \$2,147,000, \$2,143,000 during 2019 and 2018, respectively, and \$2,732,000 during 2017 mainly as the result of expenditures for property and equipment additions as well as payments on long-term debt. Investing activities decreased cash and cash equivalents by approximately \$340,000 and \$1,152,000 in 2019 and 2018, respectively, and increased cash and cash equivalents by approximately \$340,000 in 2017 due to transfer of funds to and from assets whose use is limited and variances in purchases and sales of investments in 2019, 2018, and 2017.

CAPITAL ASSETS

During 2019 and 2018, the Hospital's net capital assets have decreased by approximately \$320,000 and \$1,913,000, respectively. The change in capital assets is outlined in the following table:

	2019	2018	Change 2019 - 2018	2017	Change 2018 - 2017
Capital assets					
Land and improvements	\$ 1,106,991	\$ 1,106,991	\$ -0-	\$ 1,106,991	\$ -0-
Buildings and improvements	27,302,119	27,302,119	-0-	27,681,617	(379,498)
Equipment	10,521,060	9,779,463	741,597	9,709,252	70,211
Construction in process	-0-	-0-	-0-	335,422	(335,422)
	<u>38,930,170</u>	<u>38,188,573</u>	<u>741,597</u>	<u>38,833,282</u>	<u>(644,709)</u>
Less accumulated depreciation	<u>22,187,994</u>	<u>21,125,995</u>	<u>1,061,999</u>	<u>19,856,706</u>	<u>1,269,289</u>
Capital assets, net	<u>\$ 16,742,176</u>	<u>\$ 17,062,578</u>	<u>\$ (320,402)</u>	<u>\$ 18,976,576</u>	<u>\$ (1,913,998)</u>

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

WOODLAWN HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 AND 2018

DEBT

Total debt decreased from approximately \$11,911,000 to \$11,457,000 in 2019 due to principal payments paid partially offset by capital leases being entered into during the year. Total debt decreased from approximately \$13,072,000 to \$11,911,000 in 2018 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

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

Also subsequent to year-end, the Hospital received a low interest loan in the amount of approximately \$4,583,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

WOODLAWN HOSPITAL

BALANCE SHEETS DECEMBER 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 8,598,195	\$ 10,058,043
Patient accounts receivable, net	15,903,714	16,797,367
Inventories	1,295,342	1,445,921
Estimated third party settlements	95,170	-0-
Current portion of board designated investments	2,225,000	2,225,000
Other current assets	2,966,775	2,434,614
Total current assets	<u>31,084,196</u>	<u>32,960,945</u>
Assets whose use is limited		
Board designated investments	5,291,234	3,405,651
Less current portion of board designated investments	<u>(2,225,000)</u>	<u>(2,225,000)</u>
Assets whose use is limited, net of current portion	3,066,234	1,180,651
Capital assets		
Land	596,216	596,216
Depreciable capital assets, net	<u>16,145,960</u>	<u>16,466,362</u>
Total capital assets	<u>16,742,176</u>	<u>17,062,578</u>
Total assets	50,892,606	51,204,174
Deferred outflows	<u>617,210</u>	<u>771,512</u>
Total assets and deferred outflows	<u>\$ 51,509,816</u>	<u>\$ 51,975,686</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

BALANCE SHEETS DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	2019	2018
Current liabilities		
Accounts payable and accrued expenses	\$ 14,138,366	\$ 14,280,302
Accrued salaries and related liabilities	2,615,412	2,713,316
Estimated third party settlements	-0-	794,057
Current portion of capital leases	573,081	417,820
Current portion of long-term debt	1,729,468	728,273
Total current liabilities	<u>19,056,327</u>	<u>18,933,768</u>
Long-term debt and capital leases		
Capital leases	761,888	630,150
Long-term debt	8,393,006	10,134,310
Total long-term debt and capital leases	<u>9,154,894</u>	<u>10,764,460</u>
Total liabilities	28,211,221	29,698,228
Net position		
Net investment in capital assets	5,284,733	5,152,025
Unrestricted	18,013,862	17,125,433
Total net position	<u>23,298,595</u>	<u>22,277,458</u>
Total liabilities and net position	<u>\$ 51,509,816</u>	<u>\$ 51,975,686</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating revenues		
Net patient service revenue	\$ 180,297,439	\$ 165,813,257
Other operating revenue	739,388	431,702
Total operating revenue	181,036,827	166,244,959
Operating expenses		
Salaries and wages	25,745,319	25,956,647
Employee benefits	9,665,089	8,003,937
Purchased services	108,923,873	96,625,564
Supplies	8,966,321	9,075,261
Rent	10,966,333	10,088,814
Utilities	4,691,661	4,494,323
Repairs and maintenance	3,527,184	3,160,985
Insurance	1,635,200	1,919,877
Hospital Assessment Fee	2,793,810	2,076,790
Depreciation and amortization	1,637,262	1,757,400
Other	1,112,029	1,172,189
Total operating expenses	179,664,081	164,331,787
Operating income	1,372,746	1,913,172
Nonoperating revenue (expense)		
Investment income	180,061	147,667
Interest expense	(528,230)	(547,773)
Loss on disposition of assets	(3,440)	(825,905)
Total nonoperating revenue (expense)	(351,609)	(1,226,011)
Change in net position	1,021,137	687,161
Net position		
Beginning of year	22,277,458	21,590,297
End of year	\$ 23,298,595	\$ 22,277,458

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating activities		
Cash received from patients and third party payors	\$ 177,508,055	\$ 166,295,243
Cash paid to employees for wages and benefits	(35,508,312)	(37,438,514)
Cash paid to vendors for goods and services	(140,346,119)	(128,392,121)
Other operating receipts, net	739,388	431,702
Net cash from operating activities	2,393,012	896,310
Capital and related financing activities		
Acquisition and construction of capital assets	(383,178)	(432,992)
Interest paid on long-term debt	(528,230)	(547,773)
Principal paid on long-term debt and capital leases	(1,235,930)	(1,161,850)
Net cash used in capital and related financing activities	(2,147,338)	(2,142,615)
Investing activities		
Investment income	180,061	147,667
Purchase of assets whose use is limited	(3,220,000)	(6,600,000)
Proceeds from sale of assets whose use is limited	2,700,000	5,300,000
Net cash used in investing activities	(339,939)	(1,152,333)
Net change in cash and cash equivalents	(94,265)	(2,398,638)
Cash and cash equivalents		
Beginning of year	10,763,694	13,162,332
End of year	<u>\$ 10,669,429</u>	<u>\$ 10,763,694</u>

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 1,372,746	\$ 1,913,172
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,637,262	1,757,400
Provision for bad debt	5,247,134	3,635,601
Changes in assets and liabilities		
Patient accounts receivable	(4,353,481)	(3,459,909)
Inventories	150,579	(41,727)
Estimated third party settlements	(889,227)	306,294
Other current assets	(532,161)	255,349
Accounts payable and accrued expenses	(141,936)	(3,477,930)
Accrued salaries and related liabilities	(97,904)	8,060
Net cash from operating activities	\$ 2,393,012	\$ 896,310
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In cash and cash equivalents	\$ 8,598,195	\$ 10,058,043
In assets whose use is limited	2,071,234	705,651
Total cash and cash equivalents	\$ 10,669,429	\$ 10,763,694
 Supplemental cash flows information		
Capital assets in accounts payable	\$ -0-	\$ 26,145
Capital assets financed through capital leases	\$ 782,820	\$ -0-

See accompanying notes to financial statements.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and the 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 (discrete component unit). There were no balances or transactions to report related to component unit organizations as of December 31, 2019 and 2018 and for the years then ended.

Long-Term Care Operations

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

The Hospital has entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through December 31, 2021. 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, 2019 AND 2018

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed and are reported based on gross charges, net of certain deductions from those charges. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis based on each resident's health at admission. Medicare reimburses for 100 days of skilled nursing facility care subject to certain eligibility requirements. Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare program cost reports have been audited through December 31, 2017 with immaterial differences reflected as deductions from revenue in 2019. Amounts from unresolved cost reports for 2018 and 2019 are reflected in estimated third party settlements on the balance sheets.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Hospital Assessment Fee Program

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

Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. During 2019 and 2018, the Hospital recognized HAF expense of approximately \$2,794,000 and \$2,077,000, respectively, which resulted in increased Medicaid reimbursement.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$790,000 and \$1,095,000 during 2019 and 2018, respectively. These programs are administered by the State of Indiana but rely on Federal funding.

Charity Care

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

The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient services. Of the Hospital's total expenses reported, excluding the long-term care expenses, an estimated \$802,000 and \$511,000 arose from providing services to charity patients during the years ended December 31, 2019 and 2018, respectively.

Inventories

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets Whose Use is Limited

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

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

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

Deferred Outflows

The accounting for the acquisition of Fulton County Medical Center discussed in Note 10 resulted in recognizing intangible assets for goodwill and similar items of approximately \$1,962,000. The carrying amount of the assets will be amortized on a straight-line basis over a period of 5 to 10 years. In 2018, the balance for certain intangible assets became fully amortized. Total amortization expense for the years ended December 31, 2019 and 2018 was approximately \$154,000 and \$210,000, respectively.

Net Position

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

Restricted Resources

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Operating Revenues and Expenses

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. Nonexchange revenues, 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.

Grants and Contributions

From time to time, the Hospital receives grants and 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.

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$295,000 and \$206,000 for 2019 and 2018, respectively, and are included within other operating expenses on the statements of revenue, expenses and changes in net position.

Compensated Absences

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

Costs of Borrowing

Except for capital assets acquired through gifts or contributions, 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. There was no interest expense capitalized in 2019 and 2018.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Federal or State Income Taxes

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

Risk Management

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

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, an accrual for estimated malpractice costs for identified claims was approximately \$25,000 and \$-0- as of December 31, 2019 and 2018, respectively. It is reasonably possible that this estimate could change materially in the near term.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Litigation

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

Reclassification

Certain amounts from 2018 have been reclassified in order to conform to the 2019 presentation. There were no changes to net position as a result of these reclassifications, as previously reported.

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 May 11, 2020.

Recently Issued Accounting Standards

In November 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 83, *Certain Asset Retirement Obligations*, by one year. GASB Statement No. 83 will be effective for periods beginning after June 15, 2019.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a government entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 84, *Fiduciary Activities*, by one year. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, by one year. GASB Statement No. 88 will be effective for periods beginning after June 15, 2019.

The Hospital is presently evaluating the impact of these standards.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The following is a summary of net patient service revenue for 2019 and 2018:

	2019	2018
Inpatient services	\$ 22,351,767	\$ 26,768,950
Outpatient services	108,388,356	111,712,465
Physician services	17,265,302	7,656,030
Long-term care services	122,331,944	110,417,188
Gross patient service revenue	270,337,369	256,554,633
Contractual adjustments	(83,549,562)	(86,307,463)
Charity care	(1,243,234)	(798,312)
Provision for uncollectable accounts	(5,247,134)	(3,635,601)
Deductions from patient service revenue	(90,039,930)	(90,741,376)
Net patient service revenue	<u>\$ 180,297,439</u>	<u>\$ 165,813,257</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital as of December 31, 2019 and 2018 is as follows:

	2019	2018
<u>Patient accounts receivable</u>		
Receivable from Medicare	\$ 3,536,825	\$ 3,726,255
Receivable from Medicaid	2,062,613	1,428,654
Receivable from Blue Cross	3,571,976	3,199,388
Receivable from other commercial payors	6,911,573	6,767,515
Receivable from self-pay patients	4,697,687	4,474,700
Receivable from long-term care services	8,752,180	9,079,124
Total patient accounts receivable	29,532,854	28,675,636
Less allowances for contractual adjustments	(9,532,221)	(8,988,377)
Less allowance for uncollectable accounts	(4,096,919)	(2,889,892)
Total allowances on patient accounts receivable	(13,629,140)	(11,878,269)
Patient accounts receivable, net	<u>\$ 15,903,714</u>	<u>\$ 16,797,367</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers	\$ 14,138,366	\$ 14,280,302
Payable to employees (including taxes and benefits)	2,615,412	2,713,316
Total accounts payable and accrued expenses	<u>\$ 16,753,778</u>	<u>\$ 16,993,618</u>

4. ASSETS WHOSE USE IS LIMITED

Board Designated Investments

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

The following represents assets whose use is limited as of December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 2,071,234	\$ 705,651
Certificates of deposit	3,220,000	2,700,000
	<u>\$ 5,291,234</u>	<u>\$ 3,405,651</u>

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

As of December 31, 2019 and 2018, 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, 2019				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit		\$ 3,220,000	\$ 3,220,000	\$ -0-	\$ -0-	\$ -0-
		December 31, 2018				
		Investment Maturities (in years)				
		Carrying Amount	Less than 1	1-5	6-10	More than 10
Certificates of deposit		\$ 2,700,000	\$ 2,700,000	\$ -0-	\$ -0-	\$ -0-

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

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

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Deposits and investments consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Carrying amount		
Deposits	\$ 10,669,429	\$ 10,763,694
Investments	3,220,000	2,700,000
	<u>\$ 13,889,429</u>	<u>\$ 13,463,694</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 8,598,195	\$ 10,058,043
Board designated investments	5,291,234	3,405,651
	<u>\$ 13,889,429</u>	<u>\$ 13,463,694</u>

Investment income for the years ended December 31, 2019 and 2018 consisted of interest income and was approximately \$180,000 and \$148,000, respectively.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

6. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 is as follows:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
Capital assets					
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	510,775	-0-	-0-	-0-	510,775
Buildings and fixtures	27,302,119	-0-	-0-	-0-	27,302,119
Equipment	9,779,463	1,165,998	(424,401)	-0-	10,521,060
Total capital assets	38,188,573	1,165,998	(424,401)	-0-	38,930,170
Less accumulated depreciation					
Land improvements	362,527	34,861	-0-	-0-	397,388
Buildings and fixtures	12,993,388	686,430	-0-	-0-	13,679,818
Equipment	7,770,080	761,669	(420,961)	-0-	8,110,788
Total accumulated depreciation	21,125,995	1,482,960	(420,961)	-0-	22,187,994
Capital assets, net	<u>\$ 17,062,578</u>	<u>\$ (316,962)</u>	<u>\$ (3,440)</u>	<u>\$ -0-</u>	<u>\$ 16,742,176</u>

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
Capital assets					
Land	\$ 596,216	\$ -0-	\$ -0-	\$ -0-	\$ 596,216
Land improvements	510,775	-0-	-0-	-0-	510,775
Buildings and fixtures	27,681,617	162,759	(877,679)	335,422	27,302,119
Equipment	9,709,252	296,378	(226,167)	-0-	9,779,463
Construction in progress	335,422	-0-	-0-	(335,422)	-0-
Total capital assets	38,833,282	459,137	(1,103,846)	-0-	38,188,573
Less accumulated depreciation					
Land improvements	327,666	34,861	-0-	-0-	362,527
Buildings and fixtures	12,325,940	725,794	(58,346)	-0-	12,993,388
Equipment	7,203,100	786,575	(219,595)	-0-	7,770,080
Total accumulated depreciation	19,856,706	1,547,230	(277,941)	-0-	21,125,995
Capital assets, net	<u>\$ 18,976,576</u>	<u>\$ (1,088,093)</u>	<u>\$ (825,905)</u>	<u>\$ -0-</u>	<u>\$ 17,062,578</u>

There were no significant outstanding commitments surrounding capital assets as of December 31, 2019.

7. LINE OF CREDIT

The Hospital has obtained a \$700,000 revolving line of credit with Lake City Bank. The line of credit is secured by all inventory, accounts, equipment, and general intangibles with an approximate net book value of \$19,182,000. The annual interest rate is floating rate equal to prime rate, which was 4.75% at year-end. Interest is calculated on the outstanding principal and is due monthly. The line of credit matures in August 2023, at which time all unpaid principal is due. As of December 31, 2019 and 2018, the Hospital has not drawn down against the line of credit.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

8. LONG-TERM DEBT AND CAPITAL LEASES

A summary of long-term debt and capital leases as of December 31, 2019 is as follows:

- The Hospital's \$7,300,000, Series 2007 Promissory Note is due in monthly installments of \$41,806 for 298 months at a fixed interest rate of 4.76% and commenced on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Series 2007 promissory note is secured by the related real estate with an approximate net book value of \$10,102,000. This note was issued for the renovation and expansion of Woodlawn Hospital and its parking facilities together with the purchase of the project equipment.
- The Hospital's \$4,700,000, Series 2008 Promissory Note is due in monthly installments of \$26,916 for 298 months at a fixed interest rate of 4.76% and commenced on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Series 2008 promissory note is secured by the related real estate with an approximate net book value of \$10,102,000. This note was issued for the acquisition, construction, installation, and equipping of a medical office building together with the purchase of the project equipment.
- The Hospital has entered into a Promissory Note of \$1,768,000 (Rochester Orthopedics Building note) due in monthly installments of \$11,955 for 78 months at a fixed interest rate of 2.66% that commenced on December 18, 2012 (with first payment due January 2014) and matures on June 19, 2020. This note is secured by the related real estate with an approximate net book value of \$1,186,000.
- The Hospital has entered into a Promissory Note of \$1,460,432 (Fulton County Medical Clinic note 1) due in monthly installments of \$16,031 for 120 months at a fixed interest rate of 5.75% that commenced on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023 will incur a fixed interest rate of 12% on the remaining balance until paid. This note is not secured. This note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into a Promissory Note of \$493,768 (Fulton County Medical Clinic note 2) due in monthly installments of \$5,420 for 120 months at a fixed interest rate of 5.75% that commenced on September 1, 2013. A final installment of any unpaid principal and interest is due on August 1, 2023. Any amounts remaining unpaid as of August 1, 2023 will incur a fixed interest rate of 12% on the remaining balance until paid. This note is not secured. This note was issued for the acquisition of certain fixed assets, inventory and intangible assets.
- The Hospital has entered into several capital lease obligations with interest rates of 1.59% to 5.78%, collateralized by the leased equipment. Monthly installments are due in varying amounts from \$1,134 to \$24,647, including interest. Principal and interest payments are due through October 2024.

The Series 2007 and Series 2008 promissory notes require the Hospital to comply with certain restrictive financial covenants. As of December 31, 2019, management believes that the Hospital was in compliance with the financial covenants.

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The following represents a progression of long-term debt and capital leases for the Hospital for the years ended December 31, 2019 and 2018:

	Balance December 31, 2018	Additional Borrowings	Payments	Balance December 31, 2019	Current Portion	Long-term Portion
Long-term debt and capital leases						
Promissory notes						
Series 2007	\$ 5,242,210	\$ -0-	\$ (254,030)	\$ 4,988,180	\$ 262,512	\$ 4,725,668
Series 2008	3,374,449	-0-	(163,841)	3,210,608	170,787	3,039,821
Rochester Orthopedics Building Note	1,194,527	-0-	(112,633)	1,081,894	1,081,894	-0-
Fulton County Medical Clinic Note 1	785,740	-0-	(151,134)	634,606	160,057	474,549
Fulton County Medical Clinic Note 2	265,657	-0-	(51,098)	214,559	54,115	160,444
Capital lease obligations	1,047,970	782,820	(503,194)	1,327,596	573,184	754,412
Total long term debt and capital leases	<u>\$ 11,910,553</u>	<u>\$ 782,820</u>	<u>\$ (1,235,930)</u>	<u>\$ 11,457,443</u>	<u>\$ 2,302,549</u>	<u>\$ 9,154,894</u>
	Balance December 31, 2017	Additional Borrowings	Payments	Balance December 31, 2018	Current Portion	Long-term Portion
Long-term debt and capital leases						
Promissory notes						
Series 2007	\$ 5,483,550	\$ -0-	\$ (241,340)	\$ 5,242,210	\$ 252,856	\$ 4,989,354
Series 2008	3,528,613	-0-	(154,164)	3,374,449	161,860	3,212,589
Rochester Orthopedics Building Note	1,299,506	-0-	(104,979)	1,194,527	111,329	1,083,198
Fulton County Medical Clinic Note 1	928,449	-0-	(142,709)	785,740	151,134	634,606
Fulton County Medical Clinic Note 2	313,906	-0-	(48,249)	265,657	51,094	214,563
Capital lease obligations	1,518,379	-0-	(470,409)	1,047,970	417,820	630,150
Total long term debt and capital leases	<u>\$ 13,072,403</u>	<u>\$ -0-</u>	<u>\$ (1,161,850)</u>	<u>\$ 11,910,553</u>	<u>\$ 1,146,093</u>	<u>\$ 10,764,460</u>

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

Year ending December 31,	Promissory notes		Capital Lease Obligations		Total
	Principal	Interest	Principal	Interest	
2020	\$ 1,729,365	\$ 441,082	\$ 573,184	\$ 35,210	\$ 2,778,841
2021	685,014	397,072	371,759	21,552	1,475,397
2022	721,014	361,072	161,115	13,273	1,256,474
2023	672,395	323,785	160,403	6,134	1,162,717
2024	528,566	296,108	61,135	1,085	886,894
2025 - 2029	3,064,928	1,058,439	-0-	-0-	4,123,367
2030 - 2033	2,728,565	257,407	-0-	-0-	2,985,972
	<u>\$ 10,129,847</u>	<u>\$ 3,134,965</u>	<u>\$ 1,327,596</u>	<u>\$ 77,254</u>	<u>\$ 14,669,662</u>

WOODLAWN HOSPITAL

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

	2019	2018
Equipment	\$ 3,376,323	\$ 2,623,848
Accumulated depreciation	(1,620,845)	(1,192,569)
	<u>\$ 1,755,478</u>	<u>\$ 1,431,279</u>

9. OPERATING LEASES

The Hospital has leases for a medial office and certain other items that expire in various years 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 2019 and 2018 was approximately \$513,000 and \$481,000, respectively. Minimum future payments on non-cancellable leases for the years following December 31, 2019 are as follows:

Year Ending December 31,	Amount
2020	\$ 211,716
2021	211,716
2022	211,716
2023	123,499
	<u>\$ 758,647</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$10,453,000 and \$9,608,000 for 2019 and 2018, respectively.

10. 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 8 for further discussion of the promissory notes.

11. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The Woodlawn Hospital 403(b) Tax Deferred Annuity Plan (403(b) Plan) is a defined contribution pension 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's Board of Trustees and the plan administrator.

WOODLAWN HOSPITAL

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Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital’s Board of Trustees and the plan administrator. 403(b) Plan members may contribute a portion of their annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees’ contribution based on years of service. Employer matching contributions to the 403(b) Plan for the calendar year 2019 and 2018 were \$263,000 and \$262,000, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third party payors as of December 31, 2019 and 2018 was as follows:

	Receivables		Revenues	
	2019	2018	2019	2018
Medicare	17%	19%	29%	31%
Medicaid	10%	7%	10%	10%
Blue Cross	17%	16%	22%	21%
Other commercial payors	33%	35%	36%	35%
Self-pay	23%	23%	3%	3%
	100%	100%	100%	100%

13. SELF-INSURANCE

The Hospital is self-insured for employee health claims. A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$125,000 with an unlimited aggregate amount each year. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$7,209,000 and \$5,482,000 for 2019 and 2018, 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:

	2019	2018
Unpaid claims, beginning of fiscal year	\$ 694,342	\$ 734,012
Incurred claims and changes in estimates	7,208,517	5,481,894
Claims and expenses paid	(7,331,547)	(5,521,564)
Unpaid claims, end of fiscal year	\$ 571,312	\$ 694,342

WOODLAWN HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

14. 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.

15. SUBSEQUENT EVENTS

Coronavirus Impact on the Hospital

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, and loss of, or reduction to, revenue. Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

Paycheck Protection Program

Subsequent to year-end, the Hospital received a low interest loan in the amount of approximately \$4,583,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.