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September 25, 2013

Board of Directors
Rush Memorial Hospital
1300 N. Main Street
P.O. Box 608
Rushville, IN 46173

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Rush Memorial Hospital, as of December 31, 2012 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS



RUSH MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Rush Memorial Hospital (the Hospital) which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated 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 Hospital'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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012, and its results of operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

The consolidated financial statements of the Hospital as of December 31, 2011, were audited by other auditors whose report dated April 18, 2012, expressed an unmodified opinion on those consolidated 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 consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net position and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
July 25, 2013

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

This section of Rush Memorial Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2012. This MD&A does include a discussion and analysis of the activities and results of the Hospital's Blended Component Unit, Rush Memorial Hospital Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

2012 FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$1,489,000 or 13% in 2012.
- The Hospital reported operating income of approximately \$769,000 for 2012, representing an increase of approximately \$952,000 in comparison to the year 2011 results.
- The Hospital's investment in facilities and equipment increased in 2012 by adding approximately \$1,814,000 in gross property and equipment. The Hospital disposed of capital assets with a net book value of approximately \$10,000 during the year these items combined with depreciation expense of approximately \$1,205,000 resulted in net capital assets increasing approximately \$599,000 from the prior year.
- The Hospital's cash and investments increased approximately \$1,022,000 as a result of solid operating income and investment returns.
- During 2012, the Hospital entered into agreements to lease the operations of multiple long term care facilities. As a result of the lease agreements, the Hospital recognized approximately \$5,605,000 of gross patient service revenue related to long term care.

USING THIS ANNUAL REPORT

The Hospital's consolidated 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 consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Consolidated 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).

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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

Finally, the Consolidated 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 cash balance during the year.

THE CONSOLIDATED 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 consolidated balance sheet and the consolidated 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 it. 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.

Table 1: Consolidated Balance Sheets

The significant change in the Hospital's assets was in current assets which increased approximately \$4,987,000 in 2012 compared to 2011 as a result of additional patient accounts receivable and related items associated with long term care services. Assets whose use is limited increased approximately \$60,000 in 2012 compared to 2011. Capital assets increased approximately \$599,000 over the prior year.

Current liabilities increased by approximately \$3,764,000 mainly related to the long term care activities. Long term debt increased approximately \$324,000 as the Hospital entered into new borrowings which exceeded the current year principal payments on existing debt.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Net position increased approximately \$1,489,000 from 2011 through 2012. The increase relates to a solid operating income driven from operations, contributions and investment return.

Total assets in 2011 decreased approximately \$360,000 from 2010. The majority of the decrease was in capital assets as depreciation expense outpaced capital additions. Total liabilities decreased approximately \$204,000 from 2010 to 2011 mainly related to principal payments on long term debt. Net position from 2010 to 2011 decreased approximately \$156,000 based on the Hospital's 2011 financial performance.

	2012	2011	2012-2011 Change	2010	2011-2010 Change
Assets					
Cash and investments	\$ 3,209,636	\$ 2,187,921	\$ 1,021,715	\$ 2,222,474	\$ (34,553)
Patient accounts receivable, net	6,688,612	4,099,744	2,588,868	4,146,093	(46,349)
Other current assets	2,171,747	795,537	1,376,210	622,339	173,198
Assets whose use is limited	1,454,604	1,394,356	60,248	1,693,303	(298,947)
Capital assets	9,961,846	9,363,240	598,606	9,681,499	(318,259)
Other assets	253,870	322,394	(68,524)	157,885	164,509
Total assets	<u>\$ 23,740,315</u>	<u>\$ 18,163,192</u>	<u>\$ 5,577,123</u>	<u>\$ 18,523,593</u>	<u>\$ (360,401)</u>
Liabilities					
Current liabilities	\$ 7,843,045	\$ 4,079,432	\$ 3,763,613	\$ 3,889,399	\$ 190,033
Long term debt	<u>3,298,728</u>	<u>2,974,523</u>	<u>324,205</u>	<u>3,368,513</u>	<u>(393,990)</u>
Total liabilities	11,141,773	7,053,955	4,087,818	7,257,912	(203,957)
Net position					
Invested in capital assets, net of related debt	6,082,945	5,930,371	152,574	5,825,984	104,387
Nonexpendable donor restricted	1,171,814	1,135,479	36,335	1,225,588	(90,109)
Unrestricted	<u>5,343,783</u>	<u>4,043,387</u>	<u>1,300,396</u>	<u>4,214,109</u>	<u>(170,722)</u>
Total net position	<u>12,598,542</u>	<u>11,109,237</u>	<u>1,489,305</u>	<u>11,265,681</u>	<u>(156,444)</u>
Total liabilities and net position	<u>\$ 23,740,315</u>	<u>\$ 18,163,192</u>	<u>\$ 5,577,123</u>	<u>\$ 18,523,593</u>	<u>\$ (360,401)</u>

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

The Hospital's performance in 2012 was solid with a return on equity of 12% compared to 2011 of negative 1%.

Total revenues increased approximately \$7,596,000 as utilization in inpatient and outpatient services increased. Long term care services revenue was approximately \$5,605,000 in 2012.

Expenses increased by approximately \$6,644,000 between 2011 and 2012 as purchased services and other expenses related to long term care services comprised the majority of the current year increase.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Nonoperating revenue (expense), net increased by approximately \$693,000 due contributions, investment income and other nonoperating revenue of approximately \$908,000 in 2012 compared to \$235,000 in 2011. Interest expense was approximately \$188,000 in 2012 compared to \$209,000 from 2011.

During 2012, the Hospital's net patient service revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$162,000 compared to payments of \$834,000 received in 2011. The Hospital Assessment Fee (HAF) Program was initiated in 2012 which increased Medicaid reimbursement by approximately \$2,800,000 offset by an associated HAF Program expense of approximately \$1,000,000.

Total revenues in 2011 increased approximately \$297,000 as utilization in inpatient and outpatient services increased slightly over 2010. Expenses increased slightly by approximately \$48,000 between 2010 and 2011 as increases in salary and benefits and supplies were offset by decreases in purchased services and other expenses. Nonoperating revenue (expense) decreased approximately \$474,000 from 2010 to 2011 as contributions decreased between years while interest expense remained consistent.

	2012	2011	2012-2011 Change	2010	2011-2010 Change
Revenues					
Net patient service revenue	\$ 27,451,560	\$ 19,751,221	\$ 7,700,339	\$ 19,757,216	\$ (5,995)
Other operating revenue	1,123,284	1,227,622	(104,338)	925,056	302,566
Total revenue	<u>28,574,844</u>	<u>20,978,843</u>	<u>7,596,001</u>	<u>20,682,272</u>	<u>296,571</u>
Expenses					
Salary and benefits	12,722,163	12,863,668	(141,505)	12,640,388	223,280
Purchased services and medical fees	5,941,557	2,745,112	3,196,445	2,944,551	(199,439)
Medical and other supplies	3,226,260	2,699,529	526,731	2,242,717	456,812
Depreciation and amortization	1,205,292	1,282,530	(77,238)	1,371,424	(88,894)
Other expenses	4,710,236	1,571,123	3,139,113	1,914,436	(343,313)
Total operating expenses	<u>27,805,508</u>	<u>21,161,962</u>	<u>6,643,546</u>	<u>21,113,516</u>	<u>48,446</u>
Operating income (loss)	769,336	(183,119)	952,455	(431,244)	248,125
Non-operating revenue (expense), net	719,969	26,674	693,295	500,442	(473,768)
Change in net position	<u>\$ 1,489,305</u>	<u>\$ (156,445)</u>	<u>\$ 1,645,750</u>	<u>\$ 69,198</u>	<u>\$ (225,643)</u>

CONSOLIDATED 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?"

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Total cash and cash equivalents increased approximately \$1,280,000 in 2012. Operating activities generated cash and cash equivalents of \$2,387,000 during 2012 mainly from strong operating income. Noncapital financing provided \$135,000 of cash and cash equivalents. Capital and related financing decreased cash and cash equivalents by \$1,641,000 during 2012 mainly as the result of expenditures for property and equipment additions and debt service payments. Investing activities increased cash and cash equivalents by \$399,000 due to investment activity and the classification of investments to cash equivalents during the year.

2011 cash equivalents decreased approximately \$411,000 from 2010 as capital and related financing activities used cash of \$1,858,000 which outpaced the cash provided by operating, noncapital financing and investing activities.

	2012	2011	2012-2011 Change	2010	2011-2010 Change
Cash flow from activities					
Operating	\$ 2,386,924	\$ 579,324	\$ 1,807,600	\$ 933,054	\$ (353,730)
Noncapital financing	135,279	196,249	(60,970)	(271,857)	468,106
Capital and related financing	(1,641,481)	(1,858,350)	216,869	(299,118)	(1,559,232)
Investing	398,936	672,100	(273,164)	122,501	549,599
Change in cash equivalents	<u>\$ 1,279,658</u>	<u>\$ (410,677)</u>	<u>\$ 1,690,335</u>	<u>\$ 484,580</u>	<u>\$ (895,257)</u>

SOURCES OF REVENUE

During 2012, 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 61% of the Hospital's gross revenues in 2012 but only 40% of the Hospital's net patient service revenue. Following is a table of major sources of gross patient revenues for 2012 and 2011:

<u>Payor Mix</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	47%	45%	41%
Medicaid	14%	16%	16%
Blue Cross/Anthem	16%	17%	15%
Commercial insurance	13%	13%	17%
Self-pay	10%	9%	11%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

The Hospital entered into agreements with third party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates or discounts from gross charges. Provisions have been made in the consolidated financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

CAPITAL ASSETS

During 2012, the Hospital's capital assets increased approximately \$599,000 net of asset disposals and depreciation. During 2011, capital assets decreased \$318,000 as depreciation expense outpaced capital asset additions during the year. The changes in capital assets are outlined in the following table:

	2012	2011	2012-2011 Change	2010	2011-2010 Change
Land and improvements	\$ 452,435	\$ 400,776	\$ 51,659	\$ 400,776	\$ -0-
Buildings and improvements	12,971,018	12,046,901	924,117	12,000,218	46,683
Equipment	11,363,413	11,558,478	(195,065)	11,201,314	357,164
Construction in progress	401,276	618,150	(216,874)	57,726	560,424
Total capital assets	25,188,142	24,624,305	563,837	23,660,034	964,271
Accumulated depreciation	15,226,296	15,261,065	(34,769)	13,978,535	1,282,530
Capital assets, net	<u>\$ 9,961,846</u>	<u>\$ 9,363,240</u>	<u>\$ 598,606</u>	<u>\$ 9,681,499</u>	<u>\$ (318,259)</u>

The Hospital continues to increase equipment resources to meet the needs of the community. The Hospital strives to replace equipment as it becomes obsolete as well as upgrade equipment as needed.

DEBT

Total long term debt (including current portion) increased from \$3,433,000 to \$3,879,000 in 2012 based on new borrowings of \$940,000 offset by principal payments of approximately \$494,000. In 2011, long term debt decreased \$394,000 through scheduled principal payments of \$492,000, net of new borrowings of \$69,000. More detailed information about the Hospital's long term debt is presented in the Notes to the Consolidated Financial Statements.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2012 AND 2011

ECONOMIC OUTLOOK

Management believes that the health care industry's and the 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 Controller's Office, PO Box 125, Rushville, IN, 46173.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

ASSETS

	2012	(Restated) 2011
Current assets		
Cash and cash equivalents	\$ 3,086,647	\$ 1,804,784
Investments	122,989	383,137
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,561,000 in 2012 and \$938,000 in 2011	6,688,612	4,099,744
Other current assets	2,171,747	795,537
Total current assets	12,069,995	7,083,202
Assets whose use is limited		
Internally designated	282,790	258,877
Donor restricted	1,171,814	1,135,479
Total assets whose use is limited	1,454,604	1,394,356
Capital assets		
Land	164,978	164,978
Depreciable capital assets, net	9,796,868	9,198,262
Total capital assets, net	9,961,846	9,363,240
Other assets	253,870	322,394
Total assets	\$ 23,740,315	\$ 18,163,192

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable and accrued expenses	\$ 5,373,530	\$ 1,558,804
Accrued wages and related liabilities	1,226,056	1,195,218
Line of credit	-0-	667,064
Current portion of long term debt	580,173	458,346
Estimated third party settlements	663,286	200,000
Total current liabilities	7,843,045	4,079,432
Long term debt, net of current portion	3,298,728	2,974,523
Total liabilities	11,141,773	7,053,955
Net position		
Invested in capital assets, net of related debt	6,082,945	5,930,371
Nonexpendable donor restricted	1,171,814	1,135,479
Unrestricted	5,343,783	4,043,387
Total net position	12,598,542	11,109,237
Total liabilities and net position	\$ 23,740,315	\$ 18,163,192

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>(Restated) 2011</u>
Revenues		
Net patient service revenue	\$ 27,451,560	\$ 19,751,221
Other operating revenue	<u>1,123,284</u>	<u>1,227,622</u>
Total revenues	28,574,844	20,978,843
Expenses		
Salaries and wages	10,725,281	10,718,378
Employee benefits	1,996,882	2,145,290
Medical professional fees	1,978,363	1,665,262
Purchased services	3,963,194	1,079,850
Medical supplies and drugs	2,834,826	2,392,509
Other supplies	391,434	307,020
Food	210,499	197,451
Facility and equipment leases	923,983	18,417
HAF Program	1,035,411	-0-
Depreciation and amortization	1,205,292	1,282,530
Insurance	438,740	233,268
Repairs and maintenance	472,080	466,823
Utilities	487,578	361,411
Other expenses	<u>1,141,945</u>	<u>293,753</u>
Total expenses	<u>27,805,508</u>	<u>21,161,962</u>
Operating income (loss)	769,336	(183,119)
Nonoperating revenues (expenses)		
Investment income	185,853	84,375
Interest expense	(188,068)	(208,503)
Contributions	717,279	196,249
Other nonoperating revenue (expense)	<u>4,905</u>	<u>(45,447)</u>
Nonoperating revenues (expenses), net	<u>719,969</u>	<u>26,674</u>
Change in net position	1,489,305	(156,445)
Net position		
Beginning of year	<u>11,109,237</u>	<u>11,265,682</u>
End of year	<u><u>\$ 12,598,542</u></u>	<u><u>\$ 11,109,237</u></u>

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	(Restated) 2011
Operating activities		
Cash received from patient services	\$ 24,290,567	\$ 19,772,474
Cash paid for salaries, wages and benefits	(12,691,325)	(12,973,187)
Cash paid to vendors and suppliers	(10,335,602)	(6,842,120)
Other receipts, net	1,123,284	622,157
Net cash flows from operating activities	2,386,924	579,324
Noncapital financing activities		
Contributions	135,279	196,249
Capital and related financing activities		
Proceeds from borrowings on long term debt	940,000	69,000
Payments on long term debt	(493,968)	(491,643)
Interest payments on long term debt	(188,068)	(208,503)
Payments on line of credit, net	(667,064)	(262,933)
Purchase of capital assets	(1,232,381)	(964,271)
Net cash flows from capital and related financing activities	(1,641,481)	(1,858,350)
Investing activities		
Investment income	185,853	84,375
Other nonoperating revenue (expense)	4,905	(45,447)
Proceeds from sale of investments	303,646	751,184
Purchase of investments	(95,468)	(118,012)
Net cash flows from investing activities	398,936	672,100
Net change in cash and cash equivalents	1,279,658	(410,677)
Cash and cash equivalents		
Beginning of year	1,811,797	2,222,474
End of year	\$ 3,091,455	\$ 1,811,797
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 3,086,647	\$ 1,804,784
In assets whose use is limited	4,808	7,013
Total cash and cash equivalents	\$ 3,091,455	\$ 1,811,797

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	(Restated) 2011
Reconciliation of operating income (loss) to net cash from operating activities		
Operating income (loss)	\$ 769,336	\$ (183,119)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	1,205,292	1,282,530
Bad debts	4,772,133	3,271,400
Changes in operating assets and liabilities		
Patient accounts receivable	(7,361,001)	(3,685,740)
Other current assets	(1,376,210)	(338,205)
Other assets	68,524	125,555
Accounts payable and accrued expenses	3,814,726	532,866
Accrued wages and related liabilities	30,838	125,001
Estimated third party settlements	463,286	(550,964)
Net cash from operating activities	\$ 2,386,924	\$ 579,324
Noncash capital and noncapital financing activities		
Contribution of property	\$ 582,000	\$ -0-

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Rush Memorial Hospital (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides inpatient, outpatient, emergency care as well as long term care. The Board of County Commissioners of Rush County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Rush County.

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Rush County that is attributable to the transactions of the Hospital and its blended component unit. They do not purport to, and do not, present fairly the financial position of Rush County as of December 31, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended.

Accounting principles generally accepted in the United States of America require the consolidated financial statements present the Hospital and its blended component unit, collectively referred to as "primary government". The component unit discussed in these consolidated financial statements is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. A blended component unit, although a legally separate entity, is in substance part of the primary government unit of operations and exists solely to provide services to the Hospital.

Long Term Care Operations

Pursuant to the provision of long term care, the Hospital leases the operations of approximately three 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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

During 2012, the Hospital 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 July 2014. 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.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital's blended component unit, Rush Memorial Hospital Foundation, Inc. (the Foundation), a separate not-for-profit entity organized to support the operations of the Hospital.

All significant transactions between the entities have been eliminated for financial reporting purposes.

Enterprise Fund Accounting

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

Use of Estimates

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position, cash flows or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which primarily resulted in renaming net assets to net position within the consolidated financial statements. GASB No. 63 has been applied retroactively in the accompanying consolidated financial statements.

Cash and Cash Equivalents and Consolidated Statements of Cash Flows

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days or less. 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.

Investments

Investments consist of certificates of deposit which are reported at contract value which approximate fair value.

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. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

reflected as deductions from revenue. 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. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2009 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2010 through 2012 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2012 and 2011, the Hospital recognized a decrease of approximately \$102,000 and \$-0- in the consolidated statements of revenues, expenses and changes in net position, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

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 customer base.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. 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). 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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in the first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized approximately \$213,000 and \$266,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the consolidated 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.

Other Current Assets

Other current assets include inventories which are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventories consist of the following:

	2012	2011
Medical supplies and other	\$ 377,584	\$ 361,964
Pharmaceutical	289,402	257,429
	<u>\$ 666,986</u>	<u>\$ 619,393</u>

Also included in other current assets are prepaid expenses, other receivables and various other current items related to long term care operations. These assets are classified as current as they are expected to be utilized during 2013.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes such as funded depreciation and investments restricted by donors. These investments consist primarily of cash and cash equivalents, common stocks, mutual funds and beneficial interest in perpetual trusts. Investment income, to the extent not capitalized, is reported as nonoperating revenue in the consolidated 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 the Hospital's capitalization threshold and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported at the fair value as of the date of contribution as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2012 and 2011, the Hospital recognized unrestricted contributions of property with a fair value of approximately \$582,000 and \$-0-, respectively.

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	5-25 years
Buildings and improvements	5-40 years
Equipment	3-10 years

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 \$65,000 and \$52,500 for 2012 and 2011, respectively.

Net Position

Net position of the Hospital is classified in three components. Invested in capital assets net of related debt consist 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. Nonexpendable donor restricted includes net position restricted by the donor through beneficial interests in perpetual trusts. Unrestricted includes the remaining net position that does not meet the definition of invested in capital assets net of related debt and nonexpendable donor restricted.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the Hospital's principal activity. Contributions and investment income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, excluding interest costs.

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 Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2012 and 2011 were approximately \$585,000 and \$576,100, respectively.

Of the Hospital's total expenses reported (approximately \$27,994,000, including interest expense, in 2012 and \$21,370,000, including interest expense, in 2011), an estimated \$304,000 and \$243,000 arose from providing services to charity patients during 2012 and 2011, respectively. 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 including interest expense divided by gross patient service revenue.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 - Return of Organization Exempt from Income Tax which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if these organizations have 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 these organizations, and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

Reclassifications and Restatement

Certain amounts from the 2011 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The accompanying consolidated financial statements as of and for the year ended December 31, 2011 have been restated to reflect a correction in the Hospital's classification of certain assets and net position. As a result of management's review of documentation in conjunction with accounting principles generally accepted in the United States of America, management determined that certain assets and net position should be restated for reporting of classification as of December 31, 2011. The restatement had no effect on previously reported net position or change in net position. The following is a summary of the restatement as of December 31, 2011:

	December 31, 2011		
	Originally Reported	Adjustment	Restated
Consolidated balance sheet			
Cash and cash equivalents	\$ 1,779,109	\$ 25,675	\$ 1,804,784
Assets whose use is limited			
Internally designated	\$ 28,080	\$ 230,797	\$ 258,877
Restricted by contributors and grantors	\$ 1,223,260	\$ (1,223,260)	\$ -0-
Restricted for capital acquisitions	\$ 143,016	\$ (143,016)	\$ -0-
Restricted other	\$ 25,675	\$ (25,675)	\$ -0-
Donor restricted - beneficial interests in perpetual trusts	\$ -0-	\$ 1,135,479	\$ 1,135,479
Net position			
Invested in capital assets, net of related debt	\$ 5,930,369	\$ 2	\$ 5,930,371
Restricted			
Internally designated	\$ 28,080	\$ (28,080)	\$ -0-
Expendable for capital acquisitions	\$ 143,015	\$ (143,015)	\$ -0-
Expendable for specific operating purposes	\$ 315,726	\$ (315,726)	\$ -0-
Nonexpendable permanent endowments	\$ 1,223,260	\$ (1,223,260)	\$ -0-
Nonexpendable donor restricted	\$ -0-	\$ 1,135,479	\$ 1,135,479
Unrestricted	\$ 3,468,787	\$ 574,600	\$ 4,043,387

The effect of the restatement on the 2011 consolidated statement of revenues, expenses, and change in net position and consolidated statement of cash flows was not significant.

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 or cash flows.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

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

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is July 25, 2013.

2. INVESTMENTS

Investments consist of mutual funds report at fair value and certificates of deposit which are reported at contract value. Investments balances as of December 31, 2012 and 2011 were approximately \$123,000 and \$383,000, respectively. The following represents investments as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments		
Certificates of deposit	\$ 13,835	\$ 263,018
Mutual funds	109,154	120,119
	<u>\$ 122,989</u>	<u>\$ 383,137</u>

3. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Hospital is the beneficiary under two perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Although the Hospital has no control over the administration or investment of the funds held in these trusts, the estimated fair value of the Hospital's interest in these trusts is recognized as a contribution in the period in which the Hospital receives notice that

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

the trust agreements convey an unconditional right to receive benefits. The Hospital's interest in these perpetual trusts is reported at fair value, which is estimated as the Hospital's portion of the fair market value of the assets in the trusts. Under the terms of the perpetual trusts, the Hospital receives its portion of interest and dividends earned on the corpuses, which is included as unrestricted investment income in the consolidated statements of revenues, expenses and changes in net assets.

Changes in the value of the trust assets are recorded as investment income in the consolidated statements revenues, expenses and changes in net position and increased net position by approximately \$86,000 in 2012 and decreased net position by approximately \$65,000 in 2011.

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital's Board of Trustees through funding depreciation expense. Such amounts are to be used for debt service, equipment and building, remodeling, repairing, replacing or making additions to the Hospital's buildings as authorized by IC 16-22-3-13.

Donor restricted - Amounts restricted by donor as to use of assets and includes beneficial interests in perpetual trusts.

The following represents assets whose use is limited as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets whose use is limited		
Internally designated		
Cash and cash equivalents	\$ 4,808	\$ 7,013
Common stocks	9,198	8,914
Mutual funds	<u>268,784</u>	<u>242,950</u>
Total internally designated	282,790	258,877
Donor restricted		
Beneficial interests in perpetual trusts	<u>1,171,814</u>	<u>1,135,479</u>
Total assets limited as to use	<u><u>\$ 1,454,604</u></u>	<u><u>\$ 1,394,356</u></u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Hospital 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 except for certificates of deposits which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2012 and 2011, 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, 2012				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 13,835	\$ 13,835	\$ -0-	\$ -0-	\$ -0-
Common stocks	9,198	9,198	-0-	-0-	-0-
Mutual funds	377,938	377,938	-0-	-0-	-0-
	<u>\$ 400,971</u>	<u>\$ 400,971</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

	December 31, 2011				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 263,018	\$ 263,018	\$ -0-	\$ -0-	\$ -0-
Common stocks	8,914	8,914	-0-	-0-	-0-
Mutual funds	363,069	363,069	-0-	-0-	-0-
	<u>\$ 635,001</u>	<u>\$ 635,001</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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.

Concentration of credit risk - The Hospital maintains its investments, 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 investments.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Deposits and investments consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Carrying amount		
Deposits	\$ 3,091,455	\$ 1,811,797
Investments	400,971	635,001
	<u>\$ 3,492,426</u>	<u>\$ 2,446,798</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 3,086,647	\$ 1,804,784
Investments	122,989	383,137
Internally designated	282,790	258,877
	<u>\$ 3,492,426</u>	<u>\$ 2,446,798</u>

6. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2012 and 2011:

- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- *Beneficial interests in perpetual trusts:* Valued at fair value as reported by the trustees, which represents the Hospital's pro rata interest in the net assets of the trusts, substantially all of which are valued on a mark-to-market basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011 are as follows:

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Large growth	\$ 64,716	\$ 64,716	\$ -0-	\$ -0-
Moderate allocation	21,181	21,181	-0-	-0-
High-yield	23,257	23,257	-0-	-0-
Total mutual funds	109,154	\$ 109,154	\$ -0-	\$ -0-
Certificates of deposit	13,835			
Total investments	<u>\$ 122,989</u>			
Assets whose use is limited				
Internally designated				
Common stocks				
	\$ 9,198	\$ 9,198	\$ -0-	\$ -0-
Mutual funds				
Large growth	47,545	47,545	-0-	-0-
Income	194,949	194,949	-0-	-0-
Total return	26,290	26,290	-0-	-0-
Total mutual funds	268,784	268,784	-0-	-0-
	277,982	\$ 277,982	\$ -0-	\$ -0-
Cash and cash equivalents	4,808			
Total internally designated	<u>\$ 282,790</u>			
Donor restricted				
Beneficial interests in perpetual trusts	<u>\$ 1,171,814</u>	\$ -0-	\$ -0-	<u>\$ 1,171,814</u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Large growth	\$ 76,555	\$ 76,555	\$ -0-	\$ -0-
Moderate allocation	20,154	20,154	-0-	-0-
High-yield	23,410	23,410	-0-	-0-
Total mutual funds	120,119	\$ 120,119	\$ -0-	\$ -0-
Certificates of deposit	263,018			
Total investments	\$ 383,137			
Assets whose use is limited				
Internally designated				
Common stocks	\$ 8,914	\$ 8,914	\$ -0-	\$ -0-
Mutual funds				
Large growth	82,336	82,336	-0-	-0-
Income	94,716	94,716	-0-	-0-
Total return	65,898	65,898	-0-	-0-
Total mutual funds	242,950	242,950	-0-	-0-
Cash and cash equivalents	251,864	\$ 251,864	\$ -0-	\$ -0-
Total internally designated	\$ 258,877			
Donor restricted				
Beneficial interests in perpetual trusts	\$ 1,135,479	\$ -0-	\$ -0-	\$ 1,135,479

The following is a reconciliation of activity for 2012 and 2011 for level 3 assets:

	2012	2011
Balance, beginning of year	\$ 1,135,479	\$ 1,225,588
Realized gain	2,197	3,111
Unrealized gain (loss)	85,719	(65,444)
Purchases	(67,185)	(71,225)
Sales	15,604	43,449
Balance, end of year	\$ 1,171,814	\$ 1,135,479

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2012 and 2011.

As discussed in Note 1 regarding reclassifications and restatement, certain 2011 assets were reclassified and restated to donor restricted – beneficial interests in perpetual trusts. As a result, the amounts related to the beneficial interests in perpetual trusts were reclassified from level 1 to level 3 for purposes of reporting fair value.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Realized gains of approximately \$2,000 and \$3,000 for 2012 and 2011, respectively, are included in earnings are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income. Gains of approximately \$83,000 and \$41,000 included in earnings for 2012 and 2011 are attributable to the change in unrealized gains relating to assets held as of December 31, 2012 and 2011, respectively, and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

Cash and cash equivalents, accounts payable, accrued expenses, accrued wages and related liabilities and estimated third party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, accrued expenses, accrued wages and related liabilities and estimated third party settlements approximate fair value based on their short-term maturity.

Long term debt: Fair value of the Hospital's fixed rate notes payable is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2012 and 2011, the carrying value of the fixed rate long term debt approximated fair value.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

7. CAPITAL ASSETS

Progressions for capital assets for 2012 and 2011 follow:

	December 31, 2011	Additions	Retirements	Transfers	December 31, 2012
Land	\$ 164,978	\$ -0-	\$ -0-	\$ -0-	\$ 164,978
Land improvements	235,798	34,549	-0-	17,110	287,457
Buildings and improvements	12,046,901	588,239	-0-	335,878	12,971,018
Equipment	11,558,478	522,043	(1,250,544)	533,436	11,363,413
Construction in progress	618,150	669,550	-0-	(886,424)	401,276
Total capital assets	<u>24,624,305</u>	<u>1,814,381</u>	<u>(1,250,544)</u>	<u>-0-</u>	<u>25,188,142</u>
Accumulated depreciation					
Land improvements	184,638	17,632	-0-	-0-	202,270
Buildings and improvements	6,109,150	364,670	-0-	-0-	6,473,820
Equipment	8,967,277	822,990	(1,240,061)	-0-	8,550,206
Total accumulated depreciation	<u>15,261,065</u>	<u>1,205,292</u>	<u>(1,240,061)</u>	<u>-0-</u>	<u>15,226,296</u>
Capital assets, net	<u>\$ 9,363,240</u>	<u>\$ 609,089</u>	<u>\$ (10,483)</u>	<u>\$ -0-</u>	<u>\$ 9,961,846</u>

	December 31, 2010	Additions	Retirements	Transfers	December 31, 2011
Land	\$ 164,978	\$ -0-	\$ -0-	\$ -0-	\$ 164,978
Land improvements	235,798	-0-	-0-	-0-	235,798
Buildings and improvements	12,000,218	46,683	-0-	-0-	12,046,901
Equipment	11,201,314	357,164	-0-	-0-	11,558,478
Construction in progress	57,726	560,424	-0-	-0-	618,150
Total capital assets	<u>23,660,034</u>	<u>964,271</u>	<u>-0-</u>	<u>-0-</u>	<u>24,624,305</u>
Less accumulated depreciation:					
Land improvements	167,816	16,822	-0-	-0-	184,638
Buildings and improvements	5,747,317	361,833	-0-	-0-	6,109,150
Equipment	8,063,402	903,875	-0-	-0-	8,967,277
Total accumulated depreciation	<u>13,978,535</u>	<u>1,282,530</u>	<u>-0-</u>	<u>-0-</u>	<u>15,261,065</u>
Capital assets, net	<u>\$ 9,681,499</u>	<u>\$ (318,259)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 9,363,240</u>

There were no significant outstanding commitments on capital assets as of December 31, 2012.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

8. DEBT

The following is a summary of the Hospital's debt as of December 31, 2012 and 2011:

	2012	2011
Note payable to financial institution dated July 7, 2005, monthly interest payments at fixed rate of 4.523%, principal payments scheduled to begin October 2015 with maturity June 2030, secured by property and equipment with a net book value of \$2,107,000 and \$2,184,000 as of December 31, 2012 and 2011, respectively.	\$ 1,875,000	\$ 1,875,000
Note payable to financial institution dated July 7, 2005, monthly principal and interest payments at fixed rate of 6.690%, with maturity June 2030, secured by property and equipment with a net book value of \$2,107,000 and \$2,184,000 as of December 31, 2012 and 2011, respectively.	231,634	309,136
Note payable to financial institution dated February 27, 2012, monthly principal and interest payments at variable rate of prime plus .25% (3.500% as of December 31, 2012 with maturity February 2017, secured by real property with a net book value of \$552,000 as of December 31, 2012.	409,218	-0-
Note payable to financial institution dated June 1, 2012, monthly principal and interest payments at variable rate of prime plus .25% (3.208% as of December 31, 2012) with maturity December 2017, secured by equipment with a net book value of \$320,000 as of December 31, 2012.	500,000	-0-
Various note payables to financial institutions with monthly principal and interest payments at fixed rates ranging from 3.500% to 4.000% with maturity dates through February 2015, secured by equipment with a net book value of \$863,000 and \$1,249,000 as of December 31, 2012 and 2011, respectively.	863,049	1,248,733
	3,878,901	3,432,869
Less current portion	580,173	458,346
	\$ 3,298,728	\$ 2,974,523

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Progressions for long term debt for 2012 and 2011 include the following:

	December 31, 2011	Additional Borrowings	Payments	December 31, 2012	Current Portion
Notes payable	\$ 3,432,869	\$ 940,000	\$ (493,968)	\$ 3,878,901	\$ 580,173

	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
Notes payable	\$ 3,855,512	\$ 69,000	\$ (491,643)	\$ 3,432,869	\$ 458,346

Aggregate maturities of long term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2013	\$ 580,173	\$ 156,090	\$ 736,263
2014	600,965	130,366	731,331
2015	300,906	109,222	410,128
2016	261,128	98,256	359,384
2017	448,266	81,988	530,254
2018-2022	554,275	321,673	875,948
2023-2027	696,874	160,123	856,997
2028-2030	436,314	47,705	484,019
	\$ 3,878,901	\$ 395,678	\$ 1,877,722

The Hospital has a line of credit available with a local financial institution with a maximum amount of \$3,500,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 5% (5% as of December 31, 2012). The Hospital had approximately \$-0- and \$667,000 outstanding on the line of credit as of December 31, 2012 and 2011, respectively. The line of credit expires in June 2014 and is collateralized by a security interest in the Hospital's general assets.

9. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Medicaid and the Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services. 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. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2012, the Hospital recognized HAF Program expense of approximately \$1,000,000 which resulted in Medicaid rate increases of approximately \$2,800,000. The HAF Program expense is included in expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in net patient service revenue in the consolidated statements of revenues, expenses and changes in net position.

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 \$162,000 and \$834,000 during 2012 and 2011, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Other Payors

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

Patient service revenue for 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Patient service revenue		
Inpatient	\$ 5,962,204	\$ 5,229,313
Outpatient	47,818,378	45,417,398
Long term care	5,604,995	-0-
Gross patient service revenue	<u>59,385,577</u>	<u>50,646,711</u>
Deductions from revenue		
Contractual allowances	26,576,942	27,047,943
Charity care	584,942	576,147
Bad debts	4,772,133	3,271,400
Total deductions from revenue	<u>31,934,017</u>	<u>30,895,490</u>
Net patient service revenue	<u>\$ 27,451,560</u>	<u>\$ 19,751,221</u>

10. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2015. 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, including cancelable and non-cancelable leases, for 2012 and 2011 was approximately \$20,000 and \$18,000, respectively.

Lease expense for facilities and equipment under the long term care leases discussed in Note 1 was approximately \$904,000 and \$-0- for 2012 and 2011, respectively.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

11. CONCENTRATION OF CREDIT RISK

The Hospital is located in Rushville, 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 receivables and revenue from patients and third-party payors as of and for the years ended December 31, 2012 and 2011 was as follows:

	Receivables		Revenues	
	2012	2011	2012	2011
Medicare	36%	32%	47%	45%
Medicaid	11%	8%	14%	16%
Blue Cross	10%	8%	16%	17%
Commercial	10%	12%	13%	13%
Self-pay	33%	40%	10%	9%
	100%	100%	100%	100%

12. BLENDED COMPONENT UNIT

The Hospital's consolidated financial statements include the accounts of its blended component unit, the Foundation. All significant related party transactions have been eliminated from the consolidated financial statements. The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2012 and 2011:

	2012	2011
Assets		
Current assets	\$ 342,521	\$ 290,051
Capital assets, net	492,423	-0-
Other assets	1,078	-0-
Total assets	\$ 836,022	\$ 290,051
Net assets	\$ 836,022	\$ 290,051
Revenues	\$ 722,923	\$ 196,249
Expenses	176,952	112,349
Change in net assets	545,971	83,900
Net assets		
Beginning of year	290,051	206,151
End of year	\$ 836,022	\$ 290,051

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 \$70,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$910,000 and \$1,052,000 for 2012 and 2011, respectively.

Claim expenditures and liabilities 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 balance of health claim liabilities during the past two years are as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims, beginning of year	\$ 118,423	\$ 116,115
Incurred claims and changes in estimates	910,437	1,052,187
Claim payments	<u>(910,437)</u>	<u>(1,049,879)</u>
Unpaid claims, end of year	<u>\$ 118,423</u>	<u>\$ 118,423</u>

14. RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, and employee medical claims. The Hospital is insured against medical malpractice claims under a modified claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$250,000 or aggregate claims exceeding \$5,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 2,854,380	\$ 232,267	\$ -0-	\$ 3,086,647
Investments	13,835	109,154	-0-	122,989
Patient accounts receivable, net	6,688,612	-0-	-0-	6,688,612
Other current assets	2,170,647	1,100	-0-	2,171,747
Total current assets	11,727,474	342,521	-0-	12,069,995
Assets whose use is limited				
Internally designated	282,790	-0-	-0-	282,790
Donor restricted	1,171,814	-0-	-0-	1,171,814
Total assets whose use is limited	1,454,604	-0-	-0-	1,454,604
Capital assets				
Land	164,978	-0-	-0-	164,978
Depreciable capital assets, net	9,304,445	492,423	-0-	9,796,868
Total capital assets, net	9,469,423	492,423	-0-	9,961,846
Other assets	252,792	1,078	-0-	253,870
Total assets	<u>\$ 22,904,293</u>	<u>\$ 836,022</u>	<u>\$ -0-</u>	<u>\$ 23,740,315</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable and accrued expenses	\$ 5,373,530	\$ -0-	\$ -0-	\$ 5,373,530
Accrued wages and related liabilities	1,226,056	-0-	-0-	1,226,056
Current portion of long term debt	580,173	-0-	-0-	580,173
Estimated third party settlements	663,286	-0-	-0-	663,286
Total current liabilities	7,843,045	-0-	-0-	7,843,045
Long term debt, net of current portion	3,298,728	-0-	-0-	3,298,728
Total liabilities	11,141,773	-0-	-0-	11,141,773
Net position				
Invested in capital assets, net of related debt	5,590,522	492,423	-0-	6,082,945
Nonexpendable donor restricted	1,171,814	-0-	-0-	1,171,814
Unrestricted	5,000,184	343,599	-0-	5,343,783
Total net position	11,762,520	836,022	-0-	12,598,542
Total liabilities and net position	<u>\$ 22,904,293</u>	<u>\$ 836,022</u>	<u>\$ -0-</u>	<u>\$ 23,740,315</u>

See report of independent auditors on pages 1 and 2.

RUSH MEMORIAL HOSPITAL

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN POSITION YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	Eliminations	Total
Revenues				
Net patient service revenue	\$ 27,451,560	\$ -0-	\$ -0-	\$ 27,451,560
Other operating revenue	1,143,775	-0-	(20,491)	1,123,284
Total revenues	28,595,335	-0-	(20,491)	28,574,844
Expenses				
Salaries and wages	10,685,440	-0-	39,841	10,725,281
Employee benefits	1,996,882	-0-	-0-	1,996,882
Medical professional fees	1,978,363	-0-	-0-	1,978,363
Purchased services	3,963,194	-0-	-0-	3,963,194
Medical supplies and drugs	2,834,826	-0-	-0-	2,834,826
Other supplies	391,434	-0-	-0-	391,434
Food	210,499	-0-	-0-	210,499
Facility and equipment leases	923,983	-0-	-0-	923,983
HAF Program	1,035,411	-0-	-0-	1,035,411
Depreciation and amortization	1,205,292	-0-	-0-	1,205,292
Insurance	438,740	-0-	-0-	438,740
Repairs and maintenance	472,080	-0-	-0-	472,080
Utilities	487,578	-0-	-0-	487,578
Other expenses	1,141,945	-0-	-0-	1,141,945
Total expenses	27,765,667	-0-	39,841	27,805,508
Operating income (loss)	829,668	-0-	(60,332)	769,336
Nonoperating revenues (expenses)				
Investment income	180,209	5,644	-0-	185,853
Interest expense	(188,068)	-0-	-0-	(188,068)
Contributions	-0-	717,279	-0-	717,279
Other nonoperating revenue (expense)	121,525	(176,952)	60,332	4,905
Nonoperating revenues (expenses), net	113,666	545,971	60,332	719,969
Change in net position	943,334	545,971	-0-	1,489,305
Net position				
Beginning of year	10,819,186	290,051	-0-	11,109,237
End of year	\$ 11,762,520	\$ 836,022	\$ -0-	\$ 12,598,542

See report of independent auditors on pages 1 and 2.