

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

RUSH MEMORIAL HOSPITAL
A COMPONENT UNIT OF
RUSH COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED
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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director/ Chief Executive Officer (CEO)	Bradley K. Smith	01-01-06 to 12-31-07
Treasurer/Chief Financial Officer (CFO)	Karen Meyer	01-01-06 to 12-31-07
Chairman of the Hospital Board	John Byrne	01-01-06 to 12-31-07
President of the Board of County Commissioners	Thomas Barnes	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE RUSH MEMORIAL HOSPITAL, RUSH COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Rush Memorial Hospital (Hospital), as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Hospital has not presented Management Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 30, 2007

RUSH MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current assets:	
Cash and cash equivalents	\$ 15,229
Patient accounts receivable, net of estimated uncollectibles of \$2,945,239	4,103,617
Supplies and other current assets	796,091
Noncurrent cash and investments:	
Internally designated	1,082,495
Held by trustee for debt service and equipment acquisition	148,981
Other long-term investments	5,959
Restricted by contributors and grantors	1,669,192
Capital assets:	
Land	49,978
Depreciable capital assets, net of accumulated depreciation	12,729
Other assets	<u>10,195,019</u>
 Total assets	 <u>\$ 18,079,290</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 1,431,829
Accounts payable and accrued expenses	2,857,533
Long-term debt, net of current maturities	<u>3,840,998</u>
 Total liabilities	 <u>8,130,360</u>
Net assets:	
Invested in capital assets, net of related debt	5,838,931
Restricted:	
Expendable for capital acquisitions	324,195
Expendable for specific operating activities	33,620
Held by trustee for debt service and equipment acquisition	148,981
Nonexpendable permanent endowments	1,324,622
Unrestricted	<u>2,278,581</u>
 Total net assets	 <u>9,948,930</u>
 Total liabilities and net assets	 <u>\$ 18,079,290</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2006

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 15,805,494
Other	<u>275,700</u>
Total operating revenues	<u>16,081,194</u>
Operating expenses:	
Salaries and benefits	10,545,141
Medical supplies and drugs	1,618,457
Insurance	358,793
Other supplies	746,312
Depreciation and amortization	980,502
Other expenses	<u>2,814,354</u>
Total operating expenses	<u>17,063,559</u>
Operating loss	<u>(982,365)</u>
Nonoperating revenues (expenses):	
Investment income	220,752
Investment expense	(129,129)
Noncapital grants and contributions	64,916
Loss on sale of equipment	(3,777)
Property tax	127,903
Other	<u>(31,227)</u>
Total nonoperating revenues (expenses)	<u>249,438</u>
Deficiency of revenues under expenses before capital grants and contributions	(732,927)
Capital grants and contributions	<u>142,563</u>
Decrease in net assets	(590,364)
Net assets beginning of the year	<u>10,539,294</u>
Net assets end of the year	<u>\$ 9,948,930</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 15,451,616
Payments to suppliers and contractors	(4,605,671)
Payments to employees	(10,429,728)
Other receipts and payments, net	<u>20,056</u>
Net cash provided by operating activities	<u>436,273</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	22,723
Interest on temporary loans	(63,358)
Net borrowings under temporary loans	485,032
Net contributions restricted for specific purposes	<u>(2,278)</u>
Net cash provided by noncapital financing activities	<u>442,119</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	142,563
Proceeds from loans	3,000,113
Principal paid on long-term debt	(488,768)
Interest paid on long-term debt	(65,771)
Cumulative building subsidy from county (property tax)	127,903
Purchase of capital assets	<u>(3,528,562)</u>
Net cash used by capital and related financing activities	<u>(812,522)</u>
Cash flows from investing activities:	
Interest and dividends on investments	220,752
Net proceeds from investing activities	<u>34,840</u>
Net cash provided by investing activities	<u>255,592</u>
Net increase in cash and cash equivalents	321,462
Cash and cash equivalents at beginning of year	<u>180,079</u>
Cash and cash equivalents at end of year	<u>\$ 501,541</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 15,229
Restricted cash and cash equivalents	<u>486,312</u>
Total cash and cash equivalents	<u>\$ 501,541</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (982,365)
Adjustments to reconcile operating loss to net cash flows provided in operating activities:	
Depreciation and amortization	980,502
Provision for bad debts	(2,427,733)
Decrease in current assets:	
Patient accounts receivable	2,073,855
Supplies and other current assets	94,836
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	952,822
Estimated third-party payor settlements	<u>(255,644)</u>
Net cash provided in operating activities	<u>\$ 436,273</u>
Noncash investing, capital, and financing activities:	
The Hospital entered into capital lease obligations of \$664,162 for new equipment in 2006.	

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Board of County Commissioners of 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 accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Unit

The Rush Memorial Hospital Foundation is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit 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.

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

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

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 1,000	Straight-line	5-25 years
Buildings and improvements	1,000	Straight-line	5-40 years
Equipment	1,000	Straight-line	5-10 years

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

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the Hospital during the current year was \$52,611.

4. Net Assets

Net assets of the Hospital are classified in four components.

Net assets 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.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital.

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

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

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity.

F. 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.

G. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses and Changes in Net Assets 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, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Compensated Absences

1. Sick Leave

Hospital employees earn sick leave at the rate of 8 hours per each 320 hours paid. Unused sick leave may be accumulated to a maximum of 480 hours. Accumulated sick leave is not paid to employees.

2. Paid Time Off

Hospital employees earn paid time off (PTO) at rates from .0597 hour to .1289 hour per hour scheduled to work based upon the number of years of service. PTO may be accumulated to a maximum of 335 hours. Accumulated PTO is paid to employees through cash payments upon the employee's request.

Paid time-off is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-15 requires only that money in the hospital funds be deposited in the manner determined by the governing board. The Hospital does not have a formal policy regarding custodial credit risk for deposits. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2006, the Hospital had the following investments:

Investment Type	Primary Government	Investment Maturities (in Years)		
	Market Value	Less Than 1	1-2	More Than 2
U.S. Government securities	\$ 380,571	\$ -	\$ -	\$ 380,571
Corporate equity instruments	13,875	-	-	13,875
Totals	<u>\$ 394,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 394,446</u>
Investments not subject to categorization:				
Open-end mutual funds				\$ 1,402,075
Silver bars				<u>5,959</u>
Total investments				<u>\$ 1,802,480</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Policies

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: 1) any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; 2) repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective; 3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; 4) securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency; or 5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a Hospital's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 4,610,371
Receivable from Medicare	1,581,722
Receivable from Medicaid	<u>856,763</u>
Total patient accounts receivable	7,048,856
Less allowance for uncollectible amounts	<u>2,945,239</u>
Patient accounts receivable, net	<u>\$ 4,103,617</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 642,281
Payable to suppliers	2,088,601
Other	<u>126,651</u>
Total accounts payable and accrued expenses	<u>\$ 2,857,533</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 49,978	\$ -	\$ -	\$ 49,978
Construction in progress	<u>342,621</u>	<u>2,628,119</u>	<u>2,958,011</u>	<u>12,729</u>
Total capital assets, not being depreciated	<u>392,599</u>	<u>2,628,119</u>	<u>2,958,011</u>	<u>62,707</u>
Capital assets, being depreciated:				
Land improvements	147,417	-	-	147,417
Buildings and improvements	8,761,243	2,611,899	-	11,373,142
Equipment	<u>8,140,275</u>	<u>1,246,556</u>	<u>1,234,072</u>	<u>8,152,759</u>
Totals	<u>17,048,935</u>	<u>3,858,455</u>	<u>1,234,072</u>	<u>19,673,318</u>
Less accumulated depreciation for:				
Land improvements	108,961	5,493	-	114,454
Buildings and improvements	4,013,004	231,427	-	4,244,431
Equipment	<u>5,606,127</u>	<u>743,582</u>	<u>1,230,295</u>	<u>5,119,414</u>
Totals	<u>9,728,092</u>	<u>980,502</u>	<u>1,230,295</u>	<u>9,478,299</u>
Total capital assets, being depreciated, net	<u>7,320,843</u>	<u>2,877,953</u>	<u>3,777</u>	<u>10,195,019</u>
Total primary government capital assets, net	<u>\$ 7,713,442</u>	<u>\$ 5,506,072</u>	<u>\$ 2,961,788</u>	<u>\$ 10,257,726</u>

D. Capital Leases

The Hospital has entered into various capital leases for medical equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year end are as follows:

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2007	\$	351,947
2008		351,947
2009		333,179
2010		128,747
2011		74,451
2012-2016		<u>128,196</u>
Total minimum lease payments		1,368,467
Less amount representing interest		<u>136,842</u>
Present value of net minimum lease payments		<u>\$ 1,231,625</u>

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

Equipment	\$	1,684,989
Accumulated depreciation		<u>538,278</u>
Total	\$	<u>1,146,711</u>

E. Short-Term Liabilities

The Hospital uses a revolving line of credit to finance a variety of public projects, including operating funds.

Short-term debt activity for the year ended was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed/ Repayments</u>	<u>Ending Balance</u>
Line of credit	<u>\$ 369,000</u>	<u>\$ 1,024,032</u>	<u>\$ 539,000</u>	<u>\$ 854,032</u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into a note. Annual debt service requirements to maturity for the note, including interest of \$18,770, are as follows:

2007	\$	257,726
2008		257,726
2009		<u>64,432</u>
Total	\$	<u>579,884</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Loans Payable

The Hospital has entered into two loans. Annual debt service requirements to maturity for the loans, including interest of \$1,670,112 are as follows:

2007	\$ 199,628
2008	215,965
2009	215,729
2010	215,729
2011	188,113
2012-2016	895,943
2017-2021	875,948
2022-2026	875,948
2027-2030	<u>613,164</u>
 Total	 <u>\$ 4,296,167</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 815,124	\$ 664,162	\$ 247,661	\$ 1,231,625	\$ 304,610
Notes payable	779,634	-	218,520	561,114	244,981
Loans payable	<u>312,692</u>	<u>2,335,951</u>	<u>22,588</u>	<u>2,626,055</u>	<u>75,029</u>
 Total long-term liabilities	 <u>\$ 1,907,450</u>	 <u>\$ 3,000,113</u>	 <u>\$ 488,769</u>	 <u>\$ 4,418,794</u>	 <u>\$ 624,620</u>

G. Endowments and Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	<u>2006</u>
Cumulative Building Fund:	
Purchase of capital assets	\$ 251,305
Holl/Kirk Estate Income:	
Purchase of capital assets	21,287
Held by trustee:	
Purchase of capital assets	148,981
Bio-Terrorism Grant:	
Specific operating activities	<u>23,019</u>
 Total restricted nonexpendable net assets	 <u>\$ 444,592</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

Restricted nonexpendable net assets as of year end represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	2006
Donation Fund - Holl/Kirk Estate	\$ 177,056
Donation Fund - Myers Estate	1,077,026
Donation Fund - Pattison-Schrichte Farm	56,665
Donation Fund - Equity Stock	13,875
Total restricted nonexpendable net assets	\$ 1,324,622

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$205,745 for 2006.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 3
Investments	5,906
Total funded depreciation	5,909
Board designation:	
Cash and cash equivalents	48,451
Investments	1,028,135
Total board designation	1,076,586
Total internally designated	\$ 1,082,495

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Economic Development Income Tax Lease Rental Bonds Paid by County

Economic Development Income Tax Lease Rental bonds of Rush County were issued April 1, 1996, in the total amount of \$3,500,000 for Hospital construction. The bonds and interest thereon are being paid by tax levy revenues and are not an obligation of the Hospital. In 2006, the amount of \$305,500 in lease rental payments was paid. At December 31, 2006, the principal and interest on the lease rental bonds outstanding totaled \$2,732,000.

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the Operating Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$15,000 per person to an aggregate maximum of \$1,000,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

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 (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

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

	<u>2006</u>	<u>2005</u>
Unpaid claims, beginning of fiscal year	\$ 171,094	\$ 175,523
Incurred claims and changes in estimates	1,259,498	1,186,536
Claim payments	<u>(1,292,169)</u>	<u>(1,190,965)</u>
Unpaid claims, end of fiscal year	<u>\$ 138,423</u>	<u>\$ 171,094</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the 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 or results from operations.

C. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

D. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by American United Life Insurance Company as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

American United Life Insurance Company
P.O. Box 368
Indianapolis, IN 46206-0368
Ph. (317) 263-1877

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute 3.5% of the first \$10,800 of compensation and 7% of all additional compensation to a maximum of \$125,000. Employer contributions to the plan were \$287,388.

RUSH MEMORIAL HOSPITAL
 COMBINING STATEMENT OF NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNIT
 December 31, 2006

<u>Assets</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Report Total</u>
Current assets:				
Cash and cash equivalents	\$ 15,229	\$ -	\$ -	\$ 15,229
Patient accounts receivable, net of estimated uncollectibles of \$2,945,239	4,103,617	-	-	4,103,617
Supplies and other current assets	782,847	13,244	-	796,091
Noncurrent cash and investments:				
Internally designated	1,082,495	-	-	1,082,495
Held by trustee for debt service and equipment acquisition	148,981	-	-	148,981
Other long-term investments	5,959	-	-	5,959
Restricted by contributors and grantors	1,620,232	48,960	-	1,669,192
Capital assets:				
Land	49,978	-	-	49,978
Construction work in progress	12,729	-	-	12,729
Depreciable capital assets, net of accumulated depreciation	<u>10,195,019</u>	<u>-</u>	<u>-</u>	<u>10,195,019</u>
Total assets	<u>\$ 18,017,086</u>	<u>\$ 62,204</u>	<u>\$ -</u>	<u>\$ 18,079,290</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 1,478,653	\$ -	\$ -	\$ 1,478,653
Accounts payable and accrued expenses	2,857,533	-	-	2,857,533
Long-term debt, net of current maturities	<u>3,794,174</u>	<u>-</u>	<u>-</u>	<u>3,794,174</u>
Total liabilities	<u>8,130,360</u>	<u>-</u>	<u>-</u>	<u>8,130,360</u>
Net assets:				
Invested in capital assets, net of related debt	5,838,931	-	-	5,838,931
Restricted:				
Expendable for capital acquisitions	272,592	51,603	-	324,195
Expendable for specific operating activities	23,019	10,601	-	33,620
Held by trustee for debt service and equipment acquisition	148,981	-	-	148,981
Nonexpendable permanent endowments	1,324,622	-	-	1,324,622
Unrestricted	<u>2,278,581</u>	<u>-</u>	<u>-</u>	<u>2,278,581</u>
Total net assets	<u>9,886,726</u>	<u>62,204</u>	<u>-</u>	<u>9,948,930</u>
Total liabilities and net assets	<u>\$ 18,017,086</u>	<u>\$ 62,204</u>	<u>\$ -</u>	<u>\$ 18,079,290</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNIT
 Year Ended December 31, 2006

	Hospital	Foundation	Eliminations	Report Total
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 15,805,494	\$ -	\$ -	\$ 15,805,494
Other	275,700	-	-	275,700
Total operating revenues	<u>16,081,194</u>	<u>-</u>	<u>-</u>	<u>16,081,194</u>
Operating expenses:				
Salaries and benefits	10,545,141	-	-	10,545,141
Medical supplies and drugs	1,618,457	-	-	1,618,457
Insurance	358,793	-	-	358,793
Other supplies	746,312	-	-	746,312
Depreciation and amortization	980,502	-	-	980,502
Other expenses	2,814,354	-	-	2,814,354
Total operating expenses	<u>17,063,559</u>	<u>-</u>	<u>-</u>	<u>17,063,559</u>
Operating loss	<u>(982,365)</u>	<u>-</u>	<u>-</u>	<u>(982,365)</u>
Nonoperating revenues (expenses):				
Investment income	220,685	67	-	220,752
Interest expense	(129,129)	-	-	(129,129)
Noncapital grants and contributions	22,723	42,193	-	64,916
Loss on sale of equipment	(3,777)	-	-	(3,777)
Property Tax	127,903	-	-	127,903
Other	-	(131,227)	100,000	(31,227)
Total nonoperating revenues (expenses)	<u>238,405</u>	<u>(88,967)</u>	<u>100,000</u>	<u>249,438</u>
Deficiency of revenues under expenses before capital grants and contributions	(743,960)	(88,967)	100,000	(732,927)
Capital grants and contributions	<u>100,000</u>	<u>142,563</u>	<u>(100,000)</u>	<u>142,563</u>
Increase (decrease) in net assets	(643,960)	53,596	-	(590,364)
Net assets beginning of the year	<u>10,530,686</u>	<u>8,608</u>	<u>-</u>	<u>10,539,294</u>
Net assets end of the year	<u>\$ 9,886,726</u>	<u>\$ 62,204</u>	<u>\$ -</u>	<u>\$ 9,948,930</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
 COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS - HOSPITAL AND BLENDED COMPONENT UNIT
 Year Ended December 31, 2006

	Hospital	Foundation	Eliminations	Report Total
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 15,451,616	\$ -	\$ -	\$ 15,451,616
Payments to suppliers and contractors	(4,605,671)	-	-	(4,605,671)
Payments to employees	(10,429,728)	-	-	(10,429,728)
Other receipts and payments, net	<u>20,056</u>	<u>-</u>	<u>-</u>	<u>20,056</u>
Net cash provided by operating activities	<u>436,273</u>	<u>-</u>	<u>-</u>	<u>436,273</u>
Cash flows from noncapital financing activities:				
Noncapital grants and contributions	22,723	-	-	22,723
Interest on temporary loans	(63,358)	-	-	(63,358)
Net borrowings under temporary loans	485,032	-	-	485,032
Net contributions restricted for specific purposes	<u>-</u>	<u>(2,278)</u>	<u>-</u>	<u>(2,278)</u>
Net cash provided (used) by noncapital financing activities	<u>444,397</u>	<u>(2,278)</u>	<u>-</u>	<u>442,119</u>
Cash flows from capital and related financing activities:				
Capital grants and contributions	100,000	42,563	-	142,563
Proceeds from loans	3,000,113	-	-	3,000,113
Principal paid on long-term debt	(488,768)	-	-	(488,768)
Interest paid on long-term debt	(65,771)	-	-	(65,771)
Cumulative building subsidy from county	127,903	-	-	127,903
Purchase of capital assets	<u>(3,528,562)</u>	<u>-</u>	<u>-</u>	<u>(3,528,562)</u>
Net cash provided (used) by capital and related financing activities	<u>(855,085)</u>	<u>42,563</u>	<u>-</u>	<u>(812,522)</u>
Cash flows from investing activities:				
Interest and dividends on investments	220,685	67	-	220,752
Net proceeds from investing activities	<u>34,840</u>	<u>-</u>	<u>-</u>	<u>34,840</u>
Net cash provided by investing activities	<u>255,525</u>	<u>67</u>	<u>-</u>	<u>255,592</u>
Net increase in cash and cash equivalents	281,110	40,352	-	321,462
Cash and cash equivalents at beginning of year	<u>171,471</u>	<u>8,608</u>	<u>-</u>	<u>180,079</u>
Cash and cash equivalents at end of year	<u>\$ 452,581</u>	<u>\$ 48,960</u>	<u>\$ -</u>	<u>\$ 501,541</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 15,229	\$ -	\$ -	\$ 15,229
Restricted cash and cash equivalents	<u>437,352</u>	<u>48,960</u>	<u>-</u>	<u>486,312</u>
Total cash and cash equivalents	<u>\$ 452,581</u>	<u>\$ 48,960</u>	<u>\$ -</u>	<u>\$ 501,541</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	\$ (982,365)	\$ -	\$ -	\$ (982,365)
Adjustments to reconcile operating loss to net cash flows provided in operating activities:				
Depreciation and amortization	980,502	-	-	980,502
Provision for bad debts	(2,427,733)	-	-	(2,427,733)
Decrease in current assets:				
Patient accounts receivable	2,073,855	-	-	2,073,855
Supplies and other current assets	94,836	-	-	94,836
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	952,822	-	-	952,822
Estimated third-party payor settlements	<u>(255,644)</u>	<u>-</u>	<u>-</u>	<u>(255,644)</u>
Net cash provided in operating activities	<u>\$ 436,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 436,273</u>
Noncash investing, capital, and financing activities:				
The Hospital entered into capital lease obligations of \$664,162 for new equipment in 2006.				

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 30, 2007, with Bradley K. Smith, Executive Director/Chief Executive Officer; and Karen Meyer, Treasurer/Chief Financial Officer. Our audit disclosed no material items that warrant comment at this time.