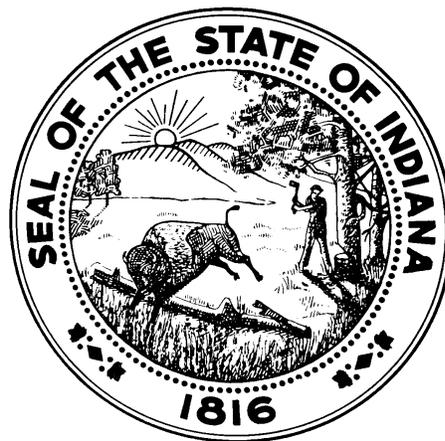


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

RUSH MEMORIAL HOSPITAL  
A COMPONENT UNIT OF  
RUSH COUNTY, INDIANA

January 1, 2007 to December 31, 2007



**FILED**

04/22/2008



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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director/ Chief Executive Officer (CEO)	Bradley K. Smith	01-01-07 to 12-31-08
Treasurer/Chief Financial Officer (CFO)	Karen Meyer	01-01-07 to 12-31-08
Chairman of the Hospital Board	John Byrne Sandy Gwinnup	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of County Commissioners	Thomas Barnes	01-01-07 to 12-31-08



THE STATE AUDITOR'S REPORT  
AN EQUAL OPPORTUNITY EMPLOYER

# STATE OF INDIANA

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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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, 2007, 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, 2007, 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

March 24, 2008

RUSH MEMORIAL HOSPITAL  
STATEMENT OF NET ASSETS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 210,390
Patient accounts receivable, net of estimated uncollectibles of \$3,048,655	4,163,921
Supplies and other current assets	812,150
Noncurrent cash and investments:	
Internally designated	283,573
Other long-term investments	6,818
Restricted by contributors and grantors	1,659,672
Capital assets:	
Land	164,978
Construction work in progress	110,906
Depreciable capital assets, net of accumulated depreciation	<u>10,233,131</u>
Total assets	<u>\$ 17,645,539</u>

Liabilities and Net Assets

Current liabilities:	
Current maturities of long-term debt	\$ 1,090,330
Accounts payable and accrued expenses	1,769,405
Estimated third-party payable	972,541
Long-term debt, net of current maturities	<u>3,121,332</u>
Total liabilities	<u>6,953,608</u>
Net assets:	
Invested in capital assets, net of related debt	6,741,384
Restricted:	
Expendable for capital acquisitions	204,987
Expendable for specific operating activities	127,266
Nonexpendable permanent endowments	1,329,005
Unrestricted	<u>2,289,289</u>
Total net assets	<u>10,691,931</u>
Total liabilities and net assets	<u>\$ 17,645,539</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, 2007

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 18,108,789
Other	<u>671,771</u>
Total operating revenues	<u>18,780,560</u>
Operating expenses:	
Salaries and benefits	11,535,105
Medical supplies and drugs	1,902,713
Insurance	315,884
Other supplies	790,476
Depreciation and amortization	1,278,454
Other expenses	<u>2,812,578</u>
Total operating expenses	<u>18,635,210</u>
Operating income	<u>145,350</u>
Nonoperating revenues (expenses):	
Investment income	149,969
Investment expense	(275,211)
Noncapital grants and contributions	151,133
Property tax	130,991
Other	<u>(43,260)</u>
Total nonoperating revenues (expenses)	<u>113,622</u>
Excess of revenues over expenses before capital grants and contributions, additions to permanent endowments, and special and extraordinary items	258,972
Capital grants and contributions	<u>484,029</u>
Increase in net assets	743,001
Net assets beginning of the year	<u>9,948,930</u>
Net assets end of the year	<u>\$ 10,691,931</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, 2007

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 18,048,485
Payments to suppliers and contractors	(6,940,562)
Payments to employees	(11,345,532)
Other receipts and payments, net	<u>1,457,805</u>
Net cash provided by operating activities	<u>1,220,196</u>
Cash flows from noncapital financing activities:	
Net borrowings under temporary loans	(410,000)
Net contributions restricted for specific purposes	<u>119,531</u>
Net cash used by noncapital financing activities	<u>(290,469)</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	484,029
Principal paid on long-term debt	(651,165)
Interest paid on long-term debt	(275,211)
Cumulative building subsidy from County	130,991
Purchase of capital assets	<u>(1,529,743)</u>
Net cash used by capital and related financing activities	<u>(1,841,099)</u>
Cash flows from investing activities:	
Interest and dividends on investments	149,969
Net proceeds from investing activities	<u>779,057</u>
Net cash provided by investing activities	<u>929,026</u>
Net increase in cash and cash equivalents	17,654
Cash and cash equivalents at beginning of year	<u>501,541</u>
Cash and cash equivalents at end of year	<u>\$ 519,195</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 210,390
Restricted cash and cash equivalents	<u>308,805</u>
Total cash and cash equivalents	<u>\$ 519,195</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 145,351
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	1,278,454
Provision for bad debts	(2,842,983)
(Increase) decrease in current assets:	
Patient accounts receivable	2,782,679
Supplies and other current assets	(27,717)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(1,088,129)
Estimated third-party payor settlements	<u>972,541</u>
Net cash provided in operating activities	<u>\$ 1,220,196</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$664,162 for new equipment in 2007.

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 out-patient 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 Units

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 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.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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 non-operating 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:

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<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.

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.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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 leave is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

	Primary Government	Investment Maturities (In Years)		
	Market Value	Less Than 1	1-2	More Than 2
U.S. government securities	\$ 394,208	\$ -	\$ -	\$ 394,208
Corporate equity instruments	18,258	-	-	18,258
Totals	<u>\$ 412,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,466</u>
Investments not subject to categorization:				
Open-end mutual funds				\$ 1,165,308
Silver bars				<u>6,818</u>
Total investments				<u>\$ 1,584,592</u>

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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	\$ 4,876,686
Receivable from Medicare	1,597,429
Receivable from Medicaid	<u>738,461</u>
Total patient accounts receivable	7,212,576
Less allowance for uncollectible amounts	<u>3,048,655</u>
Patient accounts receivable, net	<u><u>\$ 4,163,921</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 829,734
Payable to suppliers	811,182
Other	<u>128,489</u>
Total accounts payable and accrued expenses	<u><u>\$ 1,769,405</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2007, 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	\$ 115,000	\$ -	\$ 164,978
Construction in progress	<u>12,729</u>	<u>98,865</u>	<u>688</u>	<u>110,906</u>
Total capital assets, not being depreciated	<u>62,707</u>	<u>213,865</u>	<u>688</u>	<u>275,884</u>

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Land improvements	147,417	39,046	-	186,463
Buildings and improvements	11,373,142	320,430	-	11,693,572
Equipment	<u>8,152,759</u>	<u>957,089</u>	-	<u>9,109,848</u>
 Totals	 <u>19,673,318</u>	 <u>1,316,565</u>	 -	 <u>20,989,883</u>
Less accumulated depreciation for:				
Land improvements	114,454	6,576	-	121,030
Buildings and improvements	4,244,431	366,825	-	4,611,256
Equipment	<u>5,119,414</u>	<u>905,052</u>	-	<u>6,024,466</u>
 Totals	 <u>9,478,299</u>	 <u>1,278,453</u>	 -	 <u>10,756,752</u>
 Total capital assets, being depreciated, net	 <u>10,195,019</u>	 <u>38,112</u>	 -	 <u>10,233,131</u>
 Total primary government capital assets, net	 <u>\$ 10,257,726</u>	 <u>\$ 251,977</u>	 <u>\$ 688</u>	 <u>\$ 10,509,015</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Required Future Funding</u>
Health Information System	\$ 913,424	\$ 26,588	\$ 886,836
Basement Project	1,764	1,764	-
Pole Barn Project	55,000	35,106	19,894
Pediatric Building	<u>47,448</u>	<u>47,448</u>	-
 Totals	 <u>\$ 1,017,636</u>	 <u>\$ 110,906</u>	 <u>\$ 906,730</u>

E. 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)

2008	\$	342,563
2009		342,563
2010		128,747
2011		74,451
2012		27,470
2013-2016		<u>100,726</u>
Total minimum lease payments		1,016,520
Less amount representing interest		<u>89,505</u>
Present value of net minimum lease payments		<u>\$ 927,015</u>

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

Equipment	\$	1,684,989
Accumulated depreciation		<u>594,897</u>
Total	\$	<u>1,090,092</u>

F. 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>\$ 854,032</u>	<u>\$ 909,000</u>	<u>\$ 1,319,000</u>	<u>\$ 444,032</u>

G. 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 \$6,024 are as follows:

2008	\$	258,314
2009		<u>43,104</u>
Total	\$	<u>301,418</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 \$1,545,164 are as follows:

2008	\$ 212,572
2009	215,729
2010	215,729
2011	185,352
2012	182,826
2013-2017	888,307
2018-2022	875,948
2022-2027	875,948
2028-2030	<u>437,974</u>
 Total	 <u><u>\$ 4,090,385</u></u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, 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	\$ 1,231,625	\$ -	\$ 304,611	\$ 927,014	\$ 307,807
Notes payable	561,114	-	265,720	295,394	252,595
Loans payable	<u>2,626,055</u>	<u>-</u>	<u>80,833</u>	<u>2,545,222</u>	<u>85,896</u>
 Total long-term liabilities	 <u><u>\$ 4,418,794</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 651,164</u></u>	 <u><u>\$ 3,767,630</u></u>	 <u><u>\$ 646,298</u></u>

H. Endowments and Restricted Net Assets

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

	<u>2007</u>
Cumulative Building Fund:	
Purchase of capital assets	\$ 183,338
Holl/Kirk Estate Income:	
Purchase of capital assets	21,648
Bio-Terrorism Grant:	
Specific operating activities	<u>37,516</u>
 Total expendable, restricted net assets	 <u><u>\$ 242,502</u></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:

	2007
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	18,258
Total restricted nonexpendable net assets	\$ 1,329,005

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$70,322 for 2007.

J. 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.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 129
Investments	<u>6,224</u>
Total funded depreciation	<u>6,353</u>
Board designation:	
Cash and cash equivalents	123,383
Investments	<u>153,837</u>
Total board designation	<u>277,220</u>
Total internally designated	<u><u>\$ 283,573</u></u>

K. 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 2007, the amount of \$306,000 in lease rental payments was paid. At December 31, 2007, principal and interest on the lease rental bonds outstanding totaled \$2,426,000.

IV. 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 year 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.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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:

	2006	2007
Unpaid claims, beginning of fiscal year	\$ 171,094	\$ 138,423
Incurred claims and changes in estimates	1,259,498	1,260,991
Claim payments	(1,292,169)	(1,280,991)
Unpaid claims, end of fiscal year	\$ 138,423	\$ 118,423

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.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur

E. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined benefit 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

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 \$373,983.

RUSH MEMORIAL HOSPITAL  
 COMBINING STATEMENT OF NET ASSETS - HOSPITAL AND BLENDED COMPONENT UNIT  
 Year Ended December 31, 2007

<u>Assets</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Report Totals</u>
Current assets:				
Cash and cash equivalents	\$ 210,390	\$ -	\$ -	\$ 210,390
Patient accounts receivable, net of estimated uncollectibles of \$3,048,655	4,163,921	-	-	4,163,921
Supplies and other current assets	810,564	1,586	-	812,150
Noncurrent cash and investments:				
Internally designated	283,573	-	-	283,573
Other long-term investments	6,818	-	-	6,818
Restricted by contributors and grantors	1,571,508	88,164	-	1,659,672
Capital assets:				
Land	164,978	-	-	164,978
Construction work in progress	110,906	-	-	110,906
Depreciable capital assets, net of accumulated depreciation	<u>10,233,131</u>	<u>-</u>	<u>-</u>	<u>10,233,131</u>
 Total assets	 <u>\$ 17,555,789</u>	 <u>\$ 89,750</u>	 <u>\$ -</u>	 <u>\$ 17,645,539</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 1,090,330	\$ -	\$ -	\$ 1,090,330
Accounts payable and accrued expenses	1,769,405	-	-	1,769,405
Third party payable	972,541	-	-	972,541
Long-term debt, net of current maturities	<u>3,121,332</u>	<u>-</u>	<u>-</u>	<u>3,121,332</u>
 Total liabilities	 <u>6,953,608</u>	 <u>-</u>	 <u>-</u>	 <u>6,953,608</u>
 Net assets:				
Invested in capital assets, net of related debt	6,741,384	-	-	6,741,384
Restricted:				
Expendable for capital acquisitions	204,987	-	-	204,987
Expendable for specific operating activities	37,516	89,750	-	127,266
Nonexpendable permanent endowments	1,329,005	-	-	1,329,005
Unrestricted	<u>2,289,289</u>	<u>-</u>	<u>-</u>	<u>2,289,289</u>
 Total net assets	 <u>10,602,181</u>	 <u>89,750</u>	 <u>-</u>	 <u>10,691,931</u>
 Total liabilities and net assets	 <u>\$ 17,555,789</u>	 <u>\$ 89,750</u>	 <u>\$ -</u>	 <u>\$ 17,645,539</u>

RUSH MEMORIAL HOSPITAL  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
 HOSPITAL AND BLENDED COMPONENT UNIT  
 Year Ended December 31, 2007

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Report Totals</u>
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 18,108,789	\$ -	\$ -	\$ 18,108,789
Other	671,771	-	-	671,771
Total operating revenues	<u>18,780,560</u>	<u>-</u>	<u>-</u>	<u>18,780,560</u>
Operating expenses:				
Salaries and benefits	11,535,105	-	-	11,535,105
Medical supplies and drugs	1,902,713	-	-	1,902,713
Insurance	315,884	-	-	315,884
Other supplies	790,476	-	-	790,476
Depreciation and amortization	1,278,454	-	-	1,278,454
Other expenses	2,812,578	-	-	2,812,578
Total operating expenses	<u>18,635,210</u>	<u>-</u>	<u>-</u>	<u>18,635,210</u>
Operating loss	<u>145,350</u>	<u>-</u>	<u>-</u>	<u>145,350</u>
Nonoperating revenues (expenses):				
Investment income	149,660	309	-	149,969
Interest expense	(275,211)	-	-	(275,211)
Noncapital grants and contributions	55,878	95,255	-	151,133
Property tax	130,991	-	-	130,991
Other	-	(224,129)	180,869	(43,260)
Total nonoperating revenues (expenses)	<u>61,318</u>	<u>(128,565)</u>	<u>180,869</u>	<u>113,622</u>
Excess (deficiency) of revenues over expenses before capital grants and contributions	206,668	(128,565)	180,869	258,972
Capital grants and contributions	<u>508,787</u>	<u>156,111</u>	<u>(180,869)</u>	<u>484,029</u>
Increase in net assets	715,455	27,546	-	743,001
Net assets beginning of the year	<u>9,886,726</u>	<u>62,204</u>	<u>-</u>	<u>9,948,930</u>
Net assets end of the year	<u>\$ 10,602,181</u>	<u>\$ 89,750</u>	<u>\$ -</u>	<u>\$ 10,691,931</u>

RUSH MEMORIAL HOSPITAL  
 COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS -  
 HOSPITAL AND BLENDED COMPONENT UNIT  
 Year Ended December 31, 2007

	Hospital	Foundation	Eliminations	Report Totals
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 18,048,485	\$ -	\$ -	\$ 18,048,485
Payments to suppliers and contractors	(6,940,562)	-	-	(6,940,562)
Payments to employees	(11,345,532)	-	-	(11,345,532)
Other receipts and payments, net	<u>1,457,805</u>	<u>-</u>	<u>-</u>	<u>1,457,805</u>
Net cash provided by operating activities	<u>1,220,196</u>	<u>-</u>	<u>-</u>	<u>1,220,196</u>
Cash flows from noncapital financing activities:				
Net borrowings under temporary loans	(410,000)	-	-	(410,000)
Net contributions restricted for specific purposes	<u>55,878</u>	<u>63,653</u>	<u>-</u>	<u>119,531</u>
Net cash provided (used) by noncapital financing activities	<u>(354,122)</u>	<u>63,653</u>	<u>-</u>	<u>(290,469)</u>
Cash flows from capital and related financing activities:				
Capital grants and contributions	508,787	(24,758)	-	484,029
Principal paid on long-term debt	(651,165)	-	-	(651,165)
Interest paid on long-term debt	(275,211)	-	-	(275,211)
Cumulative building subsidy from County	130,991	-	-	130,991
Purchase of capital assets	<u>(1,529,743)</u>	<u>-</u>	<u>-</u>	<u>(1,529,743)</u>
Net cash used by capital and related financing activities	<u>(1,816,341)</u>	<u>(24,758)</u>	<u>-</u>	<u>(1,841,099)</u>
Cash flows from investing activities:				
Interest and dividends on investments	149,660	309	-	149,969
Net proceeds from investing activities	<u>779,057</u>	<u>-</u>	<u>-</u>	<u>779,057</u>
Net cash provided by investing activities	<u>928,717</u>	<u>309</u>	<u>-</u>	<u>929,026</u>
Net increase (decrease) in cash and cash equivalents	(21,550)	39,204	-	17,654
Cash and cash equivalents at beginning of year	<u>452,581</u>	<u>48,960</u>	<u>-</u>	<u>501,541</u>
Cash and cash equivalents at end of year	<u>\$ 431,031</u>	<u>\$ 88,164</u>	<u>\$ -</u>	<u>\$ 519,195</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 210,390	\$ -	\$ -	\$ 210,390
Restricted cash and cash equivalents	<u>220,641</u>	<u>88,164</u>	<u>-</u>	<u>308,805</u>
Total cash and cash equivalents	<u>\$ 431,031</u>	<u>\$ 88,164</u>	<u>\$ -</u>	<u>\$ 519,195</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 145,351	\$ -	\$ -	\$ 145,351
Adjustments to reconcile operating income to net cash flows provided in operating activities:				
Depreciation and amortization	1,278,454	-	-	1,278,454
Provision for bad debts	(2,842,983)	-	-	(2,842,983)
Increase (decrease) in current assets:				
Patient accounts receivable	2,782,679	-	-	2,782,679
Supplies and other current assets	(27,717)	-	-	(27,717)
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	(1,088,129)	-	-	(1,088,129)
Estimated third-party payor settlements	<u>972,541</u>	<u>-</u>	<u>-</u>	<u>972,541</u>
Net cash provided in operating activities	<u>\$ 1,220,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,220,196</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$664,162 for new equipment in 2007.

RUSH MEMORIAL HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2008, with Bradley K. Smith, Executive Director/Chief Executive Officer (CEO); Karen Meyer, Treasurer/Chief Financial Officer (CFO); Linda Levi, Board Member; and Tony Laird, Board Member. Our audit disclosed no material items that warrant comment at this time.