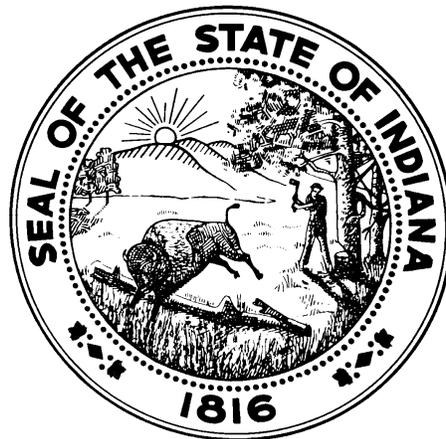


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

RUSH MEMORIAL HOSPITAL
A COMPONENT UNIT OF
RUSH COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
06/11/2009

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director/ Chief Executive Officer (CEO)	Bradley K. Smith	01-01-08 to 12-31-09
Treasurer/Chief Financial Officer (CFO)	Karen Meyer	01-01-08 to 12-31-09
Chairman of the Hospital Board	Sandy Gwinnup	01-01-08 to 12-31-09
President of the Board of County Commissioners	Thomas Barnes	01-01-08 to 12-31-09



STATE OF INDIANA
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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, 2008, 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, 2008, 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

May 11, 2009

RUSH MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>2008</u>
Current assets:	
Cash and cash equivalents	\$ 814,002
Patient accounts receivable, net of estimated uncollectibles of \$ 4,686,563	5,765,766
Supplies and other current assets	783,873
Noncurrent cash and investments:	
Internally designated	34,665
Other long-term investments	145,981
Restricted by contributors and grantors	1,091,300
Restricted for capital acquisitions	234,807
Restricted for specific operating purposes	57,460
Capital assets:	
Land	164,978
Construction work in progress	55,948
Depreciable capital assets, net of accumulated depreciation	10,014,154
Total assets	\$ 19,162,934
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Short term debt and current maturities of long-term debt	\$ 1,069,184
Accounts payable and accrued expenses	2,382,802
Third party payable	1,481,014
Long-term debt, net of current maturities	3,109,036
Total liabilities	8,042,036
Net assets:	
Invested in capital assets, net of related debt	6,642,964
Restricted:	
Expendable for capital acquisitions	234,807
Expendable for specific operating activities	200,090
Nonexpendable permanent endowments	1,091,300
Internally designated	34,665
Unrestricted	2,917,072
Total net assets	11,120,898
Total liabilities and net assets	\$ 19,162,934

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, 2008

	2008
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 19,629,610
Other	926,578
Total operating revenues	20,556,188
Operating expenses:	
Salaries and benefits	12,514,625
Medical supplies and drugs	2,475,992
Insurance	309,684
Other supplies	631,031
Depreciation and amortization	1,369,722
Other expenses	2,675,514
Total operating expenses	19,976,568
Operating income	579,620
Nonoperating revenues (expenses):	
Investment income/(unrealized loss on investment)	(357,727)
Interest expense	(225,046)
Noncapital grants and contributions	206,934
Property Tax	282,475
Other	(57,289)
Total nonoperating revenues (expenses)	(150,653)
Increase in net assets	428,967
Net assets beginning of the year	10,691,931
Net assets end of the year	\$ 11,120,898

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, 2008

	2008
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 18,027,765
Payments to suppliers and contractors	(5,880,788)
Payments to employees	(12,354,836)
Other receipts and payments, net	1,705,551
Net cash provided by operating activities	1,497,692
Cash flows from noncapital financing activities:	
Net borrowings under temporary loans	(33,442)
Net contributions restricted for specific purposes	412,752
Net cash provided by noncapital financing activities	379,310
Cash flows from capital and related financing activities:	
Capital grants and contributions	28,967
Interest paid on long-term debt	(223,928)
Purchase of capital assets	(1,095,787)
Net cash used by capital and related financing activities	(1,290,748)
Cash flows from investing activities:	
Investment income/(unrealized loss on investment)	(357,727)
Net proceeds from investing activities	149,041
Net cash used by investing activities	(208,686)
Net increase in cash and cash equivalents	377,568
Cash and cash equivalents at beginning of year	519,195
Cash and cash equivalents at end of year	\$ 896,763
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 814,002
Restricted cash and cash equivalents	82,761
Total Cash and Cash Equivalents	\$ 896,763
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 579,620
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,369,722
Provision for bad debts	(3,378,734)
Decrease in current assets:	
Patient accounts receivable	1,776,889
Supplies and other current assets	28,325
Increase in current liabilities:	
Accounts payable and accrued expenses	613,397
Estimated third-party payor settlements	508,473
Net cash provided in operating activities	\$ 1,497,692

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 three members of the Board of County Commissioners of Rush County serve on the Governing Board of the Hospital. The Commissioners appoint an additional two members and the County Council Appoints two members. 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 unit. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationship 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. 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)

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

Fair Value Measurements

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant observable inputs.

The Hospital partially adopted the provisions of SFAS 157 for fiscal year 2008, but will delay adoption of nonfinancial assets and nonfinancial liabilities covered by FASB Staff Position No. SFAS 157-2. This Staff Position permits entities to partially defer the effective of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of SFAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, the Hospital has characterized its investments in securities, based on

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of U.S. government securities that trade infrequently and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

Based upon the levels as defined the Hospital's investments as of December 31, 2008, are classified as follows:

Investment Type	December 31, 2008	Fair Value Measurements at Reporting Date Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
U.S. treasuries and securities	\$ 357,489	\$ 357,489	\$ -	\$ -
Corporate bonds	49,614	49,614	-	-
Corporate equity	103,825	103,825	-	-
Mutual funds	606,821	606,821	-	-
Totals	<u>\$ 1,117,749</u>	<u>\$ 1,117,749</u>	<u>\$ -</u>	<u>\$ -</u>

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

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. At December 31, 2008, the Hospital held investments in corporate bonds in the amount of \$49,614. Of these investments \$49,614 were held by the Counterparty.

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Moody's Rating	Hospital's Investments		
		Mutual Funds	Corporate Bonds	Government Sponsored Enterprise
AAA	Aaa	\$ -	\$ 49,614	\$ 357,489
Unrated	Unrated	606,821	-	-
Totals		<u>\$ 606,821</u>	<u>\$ 49,614</u>	<u>\$ 357,489</u>

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.

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

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	\$ 6,119,378
Receivable from Medicare	3,102,207
Receivable from Medicaid	<u>1,230,744</u>
 Total patient accounts receivable	 10,452,329
 Less allowance for uncollectible amounts	 <u>4,686,563</u>
 Patient accounts receivable, net	 <u><u>\$ 5,765,766</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,118,496
Payable to suppliers	<u>1,264,306</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 2,382,802</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2008, 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	\$ 164,978	\$ -	\$ -	\$ 164,978
Construction in progress	<u>110,906</u>	<u>420,402</u>	<u>475,360</u>	<u>55,948</u>
 Total capital assets, not being depreciated	 <u>275,884</u>	 <u>420,402</u>	 <u>475,360</u>	 <u>220,926</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 (continued):				
Land improvements	186,463	10,943	-	197,406
Buildings and improvements	11,693,572	214,683	-	11,908,255
Equipment	<u>9,109,848</u>	<u>1,079,724</u>	<u>996,818</u>	<u>9,192,754</u>
Totals	<u>20,989,883</u>	<u>1,305,350</u>	<u>996,818</u>	<u>21,298,415</u>
Less accumulated depreciation for:				
Land improvements	121,030	13,866	-	134,896
Buildings and improvements	4,611,256	377,331	-	4,988,587
Equipment	<u>6,024,466</u>	<u>978,133</u>	<u>841,821</u>	<u>6,160,778</u>
Totals	<u>10,756,752</u>	<u>1,369,330</u>	<u>841,821</u>	<u>11,284,261</u>
Total capital assets, being depreciated, net	<u>10,233,131</u>	<u>(63,980)</u>	<u>154,997</u>	<u>10,014,154</u>
Total primary government capital assets, net	<u>\$ 10,509,015</u>	<u>\$ 356,422</u>	<u>\$ 630,357</u>	<u>\$ 10,235,080</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, 2008</u>	<u>Committed</u>	<u>Required Future Funding</u>
New website	\$ 17,290	\$ 6,000	\$ 11,290	\$ -
Pediatric building	<u>49,948</u>	<u>49,948</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 67,238</u>	<u>\$ 55,948</u>	<u>\$ 11,290</u>	<u>\$ -</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

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:

2009	\$ 331,799
2010	130,653
2011	69,312
2012	27,560
2013	27,940
2014-2016	<u>70,864</u>
 Total minimum lease payments	 658,128
 Less amount representing interest	 <u>53,443</u>
 Present value of net minimum lease payments	 <u>\$ 604,685</u>

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

Equipment	\$ 1,684,989
Accumulated depreciation	<u>654,516</u>
 Total	 <u>\$ 1,030,473</u>

F. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans 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>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit, loans	<u>\$ 444,032</u>	<u>\$ 746,500</u>	<u>\$ 604,428</u>	<u>\$ 586,104</u>

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Long-Term Liabilities

1. Notes and Loans Payable

The Hospital has entered into various notes and loans. Annual debt service requirements to maturity for the loans, including interest of \$1,433,285, are as follows:

2009	\$ 298,669
2010	606,227
2011	225,337
2012	212,305
2013	182,590
2014-2018	880,910
2019-2023	875,948
2024-2028	875,948
2029-2030	<u>262,782</u>
 Total	 <u>\$ 4,420,716</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, 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	\$ 927,014	\$ -	\$ 322,329	\$ 604,685	\$ 310,649
Notes and loans payable	<u>2,840,616</u>	<u>497,193</u>	<u>350,378</u>	<u>2,987,431</u>	<u>172,431</u>
 Total long-term liabilities	 <u>\$ 3,767,630</u>	 <u>\$ 497,193</u>	 <u>\$ 672,707</u>	 <u>\$ 3,592,116</u>	 <u>\$ 483,080</u>

H. Endowments and Restricted Net Assets

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

	<u>2008</u>
Cumulative Building Fund:	
Purchase of capital assets	\$ 234,807
Bioterrorism Grant:	
Specific operating activities	57,460
Foundation:	
Specific operating activities	<u>142,630</u>
 Total expendable, restricted net assets	 <u>\$ 434,897</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:

	2008
Donation Fund - Pattison-Schrichte Farm	\$ 56,665
Donation Fund - Equity Stock	8,205
Donation Fund - Holl-Kirk Estate	154,267
Donation Fund - Myers Estate	872,163
Total restricted nonexpendable net assets	\$ 1,091,300

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$67,766 for 2008.

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 IC 16-22-3-13.
2. Capital Improvement Funds – Funds designated by the Hospital Board of Trustees for construction and other capital improvement.

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. 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	\$ 5,108
Board designation:	
Cash and cash equivalents	<u>29,557</u>
Total internally designated	<u><u>\$ 34,665</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 2008, the amount of \$306,000 in lease rental payments was paid. At December 31, 2008, principal and interest on the lease rental bonds outstanding totaled \$66,056.

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 \$45,000 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:

	<u>2007</u>	<u>2008</u>
Unpaid claims, beginning of fiscal year	\$ 138,423	\$ 118,423
Incurred claims and changes in estimates	1,260,991	1,363,967
Claim payments	<u>(1,280,991)</u>	<u>(1,150,039)</u>
Unpaid claims, end of fiscal year	<u>\$ 118,423</u>	<u>\$ 332,351</u>

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.

RUSH MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

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. During 2008, net patient service revenues in the accompanying statements of operations were increased by \$710,506, to reflect changes in the estimated settlements for certain prior years.

E. 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 IC 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 \$317,348.

RUSH MEMORIAL HOSPITAL
 COMBINING STATEMENT OF NET ASSETS
 Year Ended December 31, 2008

<u>Assets</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Report Totals</u>
Current assets:				
Cash and cash equivalents	\$ 814,002	\$ -	\$ -	\$ 814,002
Patient accounts receivable, net of estimated uncollectibles of \$4,686,563	5,765,766	-	-	5,765,766
Supplies and other current assets	782,239	1,634	-	783,873
Noncurrent cash and investments:				
Internally designated	34,665	-	-	34,665
Other long-term investments	4,985	140,996	-	145,981
Restricted by contributors and grantors	1,091,300	-	-	1,091,300
Restricted for capital acquisitions	234,807	-	-	234,807
Restricted for specific operating purposes	57,460	-	-	57,460
Capital assets:				
Land	164,978	-	-	164,978
Construction work in progress	55,948	-	-	55,948
Depreciable capital assets, net of accumulated depreciation	<u>10,014,154</u>	<u>-</u>	<u>-</u>	<u>10,014,154</u>
 Total assets	 <u>\$ 19,020,304</u>	 <u>\$ 142,630</u>	 <u>\$ -</u>	 <u>\$ 19,162,934</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 1,069,184	\$ -	\$ -	\$ 1,069,184
Accounts payable and accrued expenses	2,382,802	-	-	2,382,802
Third Party Payable	1,481,014	-	-	1,481,014
Long-term debt, net of current maturities	<u>3,109,036</u>	<u>-</u>	<u>-</u>	<u>3,109,036</u>
 Total liabilities	 <u>8,042,036</u>	 <u>-</u>	 <u>-</u>	 <u>8,042,036</u>
Net assets:				
Invested in capital assets, net of related debt	6,642,964	-	-	6,642,964
Internally designated	34,665	-	-	34,665
Restricted:				
Expendable for capital acquisitions	234,807	-	-	234,807
Expendable for specific operating activities	57,460	142,630	-	200,090
Nonexpendable permanent endowments	1,091,300	-	-	1,091,300
Unrestricted	<u>2,917,072</u>	<u>-</u>	<u>-</u>	<u>2,917,072</u>
 Total net assets	 <u>10,978,268</u>	 <u>142,630</u>	 <u>-</u>	 <u>11,120,898</u>
 Total liabilities and net assets	 <u>\$ 19,020,304</u>	 <u>\$ 142,630</u>	 <u>\$ -</u>	 <u>\$ 19,162,934</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
 Year Ended December 31, 2008

	Hospital	Foundation	Eliminations	Report Totals
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 19,629,610	\$ -	\$ -	\$ 19,629,610
Other	926,578	-	-	926,578
Total operating revenues	<u>20,556,188</u>	<u>-</u>	<u>-</u>	<u>20,556,188</u>
Operating expenses:				
Salaries and benefits	12,514,625	-	-	12,514,625
Medical supplies and drugs	2,475,992	-	-	2,475,992
Insurance	309,684	-	-	309,684
Other supplies	631,031	-	-	631,031
Depreciation and amortization	1,369,722	-	-	1,369,722
Other expenses	2,675,514	-	-	2,675,514
Total operating expenses	<u>19,976,568</u>	<u>-</u>	<u>-</u>	<u>19,976,568</u>
Operating Income	<u>579,620</u>	<u>-</u>	<u>-</u>	<u>579,620</u>
Nonoperating revenues (expenses):				
Investment income/(unrealized loss on investment)	(357,750)	23	-	(357,727)
Interest expense	(223,928)	(1,118)	-	(225,046)
Noncapital grants and contributions	81,179	167,755	(42,000)	206,934
Property Tax	282,475	-	-	282,475
Other	14,491	(113,780)	42,000	(57,289)
Total nonoperating revenues (expenses)	<u>(203,533)</u>	<u>52,880</u>	<u>-</u>	<u>(150,653)</u>
Increase in net assets	376,087	52,880	-	428,967
Net assets beginning of the year	<u>10,602,181</u>	<u>89,750</u>	<u>-</u>	<u>10,691,931</u>
Net assets end of the year	<u>\$ 10,978,268</u>	<u>\$ 142,630</u>	<u>\$ -</u>	<u>\$ 11,120,898</u>

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

RUSH MEMORIAL HOSPITAL
COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2008

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Report Total</u>
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 18,027,765	\$ -	\$ -	\$ 18,027,765
Payments to suppliers and contractors	(5,880,788)	-	-	(5,880,788)
Payments to employees	(12,354,836)	-	-	(12,354,836)
Other receipts and payments, net	<u>1,705,551</u>	<u>-</u>	<u>-</u>	<u>1,705,551</u>
Net cash provided by operating activities	<u>1,497,692</u>	<u>-</u>	<u>-</u>	<u>1,497,692</u>
Cash flows from noncapital financing activities:				
Net borrowings under temporary loans	(33,442)	-	-	(33,442)
Net contributions restricted for specific purposes	<u>378,145</u>	<u>34,607</u>	<u>-</u>	<u>412,752</u>
Net cash provided by noncapital financing activities	<u>344,703</u>	<u>34,607</u>	<u>-</u>	<u>379,310</u>
Cash flows from capital and related financing activities:				
Capital grants and contributions	-	28,967	-	28,967
Interest paid on long-term debt	(223,928)	-	-	(223,928)
Purchase of capital assets	<u>(1,095,787)</u>	<u>-</u>	<u>-</u>	<u>(1,095,787)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,319,715)</u>	<u>28,967</u>	<u>-</u>	<u>(1,290,748)</u>
Cash flows from investing activities:				
Investment income/(unrealized loss on investment)	(357,750)	23	-	(357,727)
Net proceeds from investing activities	<u>218,041</u>	<u>(69,000)</u>	<u>-</u>	<u>149,041</u>
Net cash used by investing activities	<u>(139,709)</u>	<u>(68,977)</u>	<u>-</u>	<u>(208,686)</u>
Net increase (decrease) in cash and cash equivalents	382,971	(5,403)	-	377,568
Cash and cash equivalents at beginning of year	<u>431,031</u>	<u>88,164</u>	<u>-</u>	<u>519,195</u>
Cash and cash equivalents at end of year	<u>\$ 814,002</u>	<u>\$ 82,761</u>	<u>\$ -</u>	<u>\$ 896,763</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 814,002	\$ -	\$ -	\$ 814,002
Restricted cash and cash equivalents	<u>-</u>	<u>82,761</u>	<u>-</u>	<u>82,761</u>
Total Cash and Cash Equivalents	<u>\$ 814,002</u>	<u>\$ 82,761</u>	<u>\$ -</u>	<u>\$ 896,763</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 579,620	\$ -	\$ -	\$ 579,620
Adjustments to reconcile operating income to net cash flows provided in operating activities:				
Depreciation and amortization	1,369,722	-	-	1,369,722
Provision for bad debts	(3,378,734)	-	-	(3,378,734)
(Increase) decrease in current assets:				
Patient accounts receivable	1,776,889	-	-	1,776,889
Supplies and other current assets	28,325	-	-	28,325
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	613,397	-	-	613,397
Estimated third-party payor settlements	<u>508,473</u>	<u>-</u>	<u>-</u>	<u>508,473</u>
Net cash provided in operating activities	<u>\$ 1,497,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,497,692</u>

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

RUSH MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2009, with Bradley K. Smith, Executive Director/Chief Executive Officer (CEO); Karen Meyer, Treasurer/Chief Financial Officer (CFO); Stephanie Amos, Controller; Ken Masters, County Commissioner and Hospital Board member; and Linda Levi, Hospital Board member. Our audit disclosed no material items that warrant comment at this time.