



B55594

# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

August 19, 2020

Board of Trustees  
Rush Memorial Hospital  
1300 North Main Street  
Rushville, IN 46173

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

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

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

  
Paul D. Joyce, CPA  
State Examiner



**RUSH MEMORIAL**  
H o s p i t a l

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2019**

*CPAs / ADVISORS*



# RUSH MEMORIAL HOSPITAL

## TABLE OF CONTENTS DECEMBER 31, 2019

---

|                                                                                  | Page     |
|----------------------------------------------------------------------------------|----------|
| <b>Report of Independent Auditors .....</b>                                      | <b>1</b> |
| <b>Required Supplementary Information</b>                                        |          |
| Management's Discussion and Analysis (Unaudited).....                            | MDA - i  |
| <b>Consolidated Financial Statements</b>                                         |          |
| Consolidated Balance Sheet .....                                                 | 3        |
| Consolidated Statement of Revenues, Expenses<br>and Changes in Net Position..... | 4        |
| Consolidated Statement of Cash Flows.....                                        | 5        |
| Notes to Consolidated Financial Statements.....                                  | 6        |



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Rush Memorial Hospital  
Rushville, Indiana

We have audited the accompanying consolidated financial statements of Rush Memorial Hospital (the Hospital), a component unit of Rush County, and its discretely presented component unit, Rush Memorial Hospital Foundation, Inc., as of and for the year ended December 31, 2019, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the accompanying table of contents.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

Board of Trustees  
Rush Memorial Hospital  
Rushville, Indiana

### Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Hospital's 2018 consolidated financial statements, and we expressed unmodified opinions on those audited consolidated financial statements in our report dated July 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Blue & Co., LLC**

Indianapolis, Indiana  
July 27, 2020

**REQUIRED SUPPLEMENTARY INFORMATION**

---

# **RUSH MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

---

This section of Rush Memorial Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during 2019. This MD&A does include a discussion and analysis of the activities and results of the Hospital's discrete component unit, Rush Memorial Hospital Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### **FINANCIAL HIGHLIGHTS**

- The Hospital's net position increased approximately \$4,301,000 or 18.0% in 2019 compared to \$569,000 or 2.4% in 2018.
- The Hospital reported an operating income of approximately \$3,840,000 for 2019, representing an increase of \$3,373,000 in comparison to the year 2018 results.
- The Hospital's investment in capital assets increased in 2019 by approximately \$71,000. Additions of \$2,005,000 in property and equipment were offset by depreciation expense of \$1,934,000 with accumulated depreciation of \$24,313,000 as of December 31, 2019.
- The Hospital's cash and investments in current assets increased approximately \$2,571,000 and patient accounts receivable increased \$157,000.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately \$36,262,000 and \$29,586,000 in patient service revenue during 2019 and 2018, respectively.

### **USING THIS ANNUAL REPORT**

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

The consolidated balance sheet includes all the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned, expenses incurred and changes in net position are accounted for in the consolidated statement of revenues, expenses and changes in net position.

Finally, the consolidated statement of cash flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

# **RUSH MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

---

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

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

These statements report the Hospital's net position and changes in it. Think of the Hospital's net position, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

#### Table 1: Consolidated Balance Sheet

Current assets increased approximately \$2,895,000 in 2019 mainly due to an increase in cash and cash equivalents. Assets whose use is limited increased \$307,000 in 2019 compared to a decrease of \$822,000 in 2018. Net capital assets increased \$71,000 compared to an increase of \$156,000 in 2018 based on the Hospital's capital additions and associated depreciation expense.

Current liabilities decreased by approximately \$342,000 in 2019 mainly related to decreases in accounts payable and current portion of long-term debt compared to a decrease of \$1,831,000 in 2018. Long-term debt decreased \$689,000 in 2019 due to current year principal payments. This compares to a decrease in long-term debt of \$1,077,000 in 2018.

Net position increased approximately \$4,301,000 in 2019 and \$569,000 in 2018. The increase in 2019 is related to current assets. The increase in 2018 was related to net investment in capital assets.

# RUSH MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

|                                    | 2019                 | 2018                 | 2019-2018<br>Change | 2017                 | 2018-2017<br>Change   |
|------------------------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|
| <b>Assets</b>                      |                      |                      |                     |                      |                       |
| Current assets                     | \$ 22,164,787        | \$ 19,270,079        | \$ 2,894,708        | \$ 20,940,749        | \$ (1,670,670)        |
| Assets whose use is limited        | 4,293,273            | 3,986,754            | 306,519             | 4,809,026            | (822,272)             |
| Capital assets                     | 16,384,480           | 16,313,316           | 71,164              | 16,157,192           | 156,124               |
| Other assets                       | 5,870                | 7,870                | (2,000)             | 9,870                | (2,000)               |
| Total assets                       | <u>\$ 42,848,410</u> | <u>\$ 39,578,019</u> | <u>\$ 3,270,391</u> | <u>\$ 41,916,837</u> | <u>\$ (2,338,818)</u> |
| <b>Liabilities</b>                 |                      |                      |                     |                      |                       |
| Current liabilities                | \$ 11,024,872        | \$ 11,366,485        | \$ (341,613)        | \$ 13,197,354        | \$ (1,830,869)        |
| Long-term debt                     | 3,600,538            | 4,289,792            | (689,254)           | 5,366,512            | (1,076,720)           |
| Total liabilities                  | 14,625,410           | 15,656,277           | (1,030,867)         | 18,563,866           | (2,907,589)           |
| <b>Net position</b>                |                      |                      |                     |                      |                       |
| Net investment in capital assets   | 12,149,778           | 11,067,001           | 1,082,777           | 9,731,170            | 1,335,831             |
| Restricted                         | 4,122,130            | 3,833,632            | 288,498             | 4,651,833            | (818,201)             |
| Unrestricted                       | 11,951,092           | 9,021,109            | 2,929,983           | 8,969,968            | 51,141                |
| Total net position                 | <u>28,223,000</u>    | <u>23,921,742</u>    | <u>4,301,258</u>    | <u>23,352,971</u>    | <u>568,771</u>        |
| Total liabilities and net position | <u>\$ 42,848,410</u> | <u>\$ 39,578,019</u> | <u>\$ 3,270,391</u> | <u>\$ 41,916,837</u> | <u>\$ (2,338,818)</u> |

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

The Hospital had positive performance in 2019 with a return on equity of 18.0%. This is an increase compared to return on equity of 2.4% in 2018 and 13.5% in 2017.

Total revenues increased approximately \$12,566,000 in 2019 compared to an increase of approximately \$5,020,000 in 2018. The increase is due primarily to long-term care operations. Long-term care revenue was \$36,262,000 in 2019 and \$29,586,000 in 2018.

Expenses increased by approximately \$9,193,000 in 2019 and increased by approximately \$6,157,000 in 2018. The 2019 increase is primarily in purchased services, medical supplies and drugs and other expenses. The 2018 increase is primarily in purchased services and medical supplies and drugs.

Nonoperating revenue (expense), net increased by approximately \$359,000 in 2019 and decreased by approximately \$1,079,000 in 2018. The increase in 2019 is primarily due to investment return. Interest expense was \$193,000 in 2019 and 208,000 in 2018.

# RUSH MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

|                                      | 2019          | 2018          | 2019-2018<br>Change | 2017          | 2018-2017<br>Change |
|--------------------------------------|---------------|---------------|---------------------|---------------|---------------------|
| <b>Revenues</b>                      |               |               |                     |               |                     |
| Net patient service revenue          | \$ 75,097,684 | \$ 62,207,581 | \$ 12,890,103       | \$ 56,889,266 | \$ 5,318,315        |
| Other operating revenue              | 624,904       | 948,790       | (323,886)           | 1,246,618     | (297,828)           |
| Total revenue                        | 75,722,588    | 63,156,371    | 12,566,217          | 58,135,884    | 5,020,487           |
| <b>Expenses</b>                      |               |               |                     |               |                     |
| Salary and benefits                  | 20,771,302    | 19,226,720    | 1,544,582           | 17,348,778    | 1,877,942           |
| Purchased services and medical fees  | 24,458,778    | 20,050,106    | 4,408,672           | 17,288,128    | 2,761,978           |
| Medical and other supplies           | 10,203,537    | 9,273,642     | 929,895             | 7,906,945     | 1,366,697           |
| Depreciation                         | 1,934,321     | 1,907,744     | 26,577              | 1,818,619     | 89,125              |
| Other expenses                       | 14,515,081    | 12,231,964    | 2,283,117           | 12,170,950    | 61,014              |
| Total operating expenses             | 71,883,019    | 62,690,176    | 9,192,843           | 56,533,420    | 6,156,756           |
| Operating income                     | 3,839,569     | 466,195       | 3,373,374           | 1,602,464     | (1,136,269)         |
| Non-operating revenue (expense), net | 461,689       | 102,576       | 359,113             | 1,181,887     | (1,079,311)         |
| Change in net position               | \$ 4,301,258  | \$ 568,771    | \$ 3,732,487        | \$ 2,784,351  | \$ (2,215,580)      |

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

|                                  | 2019         | 2018           | 2019-2018<br>Change | 2017         | 2018-2017<br>Change |
|----------------------------------|--------------|----------------|---------------------|--------------|---------------------|
| <b>Cash flow from activities</b> |              |                |                     |              |                     |
| Operating                        | \$ 5,252,816 | \$ (1,248,086) | \$ 6,500,902        | \$ 5,823,006 | \$ (7,071,092)      |
| Noncapital financing             | 264,734      | 417,372        | (152,638)           | 1,150,264    | (732,892)           |
| Capital and related financing    | (3,030,094)  | (3,091,976)    | 61,882              | (2,806,981)  | (284,995)           |
| Investing                        | 237,823      | 3,017,356      | (2,779,533)         | (2,569,688)  | 5,587,044           |
| Change in cash equivalents       | \$ 2,725,279 | \$ (905,334)   | \$ 3,630,613        | \$ 1,596,601 | \$ (2,501,935)      |

Total cash and cash equivalents increased approximately \$2,725,000 in 2019. Operating activities increased cash and cash equivalents by \$5,253,000 during 2019 mainly from an increase in revenues. Noncapital financing provided \$265,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$3,030,000 during 2019 mainly from the purchase of capital assets, payments on long-term debt, and interest payments on long-term debt. Investing activities increased cash and cash equivalents by \$238,000 due to investment return and proceeds from sale of investments during the year.

# RUSH MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

---

Total cash and cash equivalents decreased approximately \$905,000 in 2018. Operating activities decreased cash and cash equivalents by \$1,248,000 during 2018 mainly from a decrease in revenues. Noncapital financing provided \$417,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$3,092,000 during 2018 mainly from the purchase of capital assets and payments on long-term debt. Investing activities increased cash and cash equivalents by \$3,017,000 due to the sale of investments during the year.

### SOURCES OF REVENUE

During 2019, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 68% of the Hospital's gross revenues in 2019 and 2018. Following is a table of major sources of gross patient revenues, including long-term care, for the past three years:

| Payor Mix            | 2019        | 2018        | 2017        |
|----------------------|-------------|-------------|-------------|
| Medicare             | 43%         | 43%         | 44%         |
| Medicaid             | 25%         | 25%         | 25%         |
| Blue Cross/Anthem    | 10%         | 12%         | 13%         |
| Commercial insurance | 14%         | 13%         | 11%         |
| Self-pay             | 8%          | 7%          | 7%          |
| Total                | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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

## RUSH MEMORIAL HOSPITAL

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018 AND 2017)

---

#### CAPITAL ASSETS

The Hospital's capital assets increased approximately \$71,000 and \$156,000 net of asset disposals and depreciation in 2019 and 2018, respectively. The change in capital assets is outlined in the following table:

|                            | 2019                 | 2018                 | 2019-2018<br>Change | 2017                 | 2018-2017<br>Change |
|----------------------------|----------------------|----------------------|---------------------|----------------------|---------------------|
| Land and improvements      | \$ 665,355           | \$ 644,675           | \$ 20,680           | \$ 644,675           | \$ -0-              |
| Buildings and improvements | 19,459,552           | 19,156,023           | 303,529             | 17,421,916           | 1,734,107           |
| Equipment                  | 20,063,736           | 18,535,237           | 1,528,499           | 17,312,377           | 1,222,860           |
| Construction in progress   | 508,914              | 369,961              | 138,953             | 1,782,036            | (1,412,075)         |
| Total capital assets       | 40,697,557           | 38,705,896           | 1,991,661           | 37,161,004           | 1,544,892           |
| Accumulated depreciation   | 24,313,077           | 22,392,580           | 1,920,497           | 21,003,812           | 1,388,768           |
| Capital assets, net        | <u>\$ 16,384,480</u> | <u>\$ 16,313,316</u> | <u>\$ 71,164</u>    | <u>\$ 16,157,192</u> | <u>\$ 156,124</u>   |

The Hospital continues to increase equipment resources to meet the needs of the community. The Hospital strives to replace equipment as it becomes obsolete as well as upgrade equipment as needed. More detailed information about the Hospital's capital assets is presented in the notes to the consolidated financial statements.

#### DEBT

Total long-term debt (including current portion) decreased from approximately \$5,246,000 to \$4,235,000 in 2019 based on principal payments of \$1,012,000. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

#### ECONOMIC OUTLOOK

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue and investment portfolio declines.

# **RUSH MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018 AND 2017)**

---

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure due to a variety of factors including, but not limited to, COVID-19, uncertainty regarding health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care market place has been increasingly more competitive. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

### **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, PO Box 125, Rushville, IN, 46173.

# RUSH MEMORIAL HOSPITAL

## CONSOLIDATED BALANCE SHEET DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                                                                                                                                             | 2019                 |                   |               | 2018                      |                           |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|---------------|---------------------------|---------------------------|
|                                                                                                                                             | Total<br>Hospital    | Foundation        | Eliminations  | Total Reporting<br>Entity | Total Reporting<br>Entity |
| <b>ASSETS</b>                                                                                                                               |                      |                   |               |                           |                           |
| <b>Current assets</b>                                                                                                                       |                      |                   |               |                           |                           |
| Cash and cash equivalents                                                                                                                   | \$ 10,024,946        | \$ 136,922        | \$ -0-        | \$ 10,161,868             | \$ 7,592,172              |
| Investments                                                                                                                                 | 8,336                | -0-               | -0-           | 8,336                     | 7,144                     |
| Patient accounts receivable, net of allowance<br>for uncollectible accounts of approximately<br>\$2,383,000 in 2019 and \$2,215,000 in 2018 | 8,827,623            | -0-               | -0-           | 8,827,623                 | 8,670,453                 |
| Estimated third-party settlements                                                                                                           | -0-                  | -0-               | -0-           | -0-                       | 96,639                    |
| Other current assets                                                                                                                        | 3,164,960            | 2,000             | -0-           | 3,166,960                 | 2,903,671                 |
| Total current assets                                                                                                                        | 22,025,865           | 138,922           | -0-           | 22,164,787                | 19,270,079                |
| <b>Assets whose use is limited</b>                                                                                                          |                      |                   |               |                           |                           |
| Internally designated                                                                                                                       | 171,143              | -0-               | -0-           | 171,143                   | 153,122                   |
| Donor restricted                                                                                                                            | 3,489,719            | 632,411           | -0-           | 4,122,130                 | 3,833,632                 |
| Total assets whose use is limited                                                                                                           | 3,660,862            | 632,411           | -0-           | 4,293,273                 | 3,986,754                 |
| <b>Capital assets</b>                                                                                                                       |                      |                   |               |                           |                           |
| Land                                                                                                                                        | 188,708              | -0-               | -0-           | 188,708                   | 188,708                   |
| Depreciable capital assets, net                                                                                                             | 16,195,772           | -0-               | -0-           | 16,195,772                | 16,124,608                |
| Total capital assets, net                                                                                                                   | 16,384,480           | -0-               | -0-           | 16,384,480                | 16,313,316                |
| <b>Other assets</b>                                                                                                                         | 3,870                | 2,000             | -0-           | 5,870                     | 7,870                     |
| Total assets                                                                                                                                | <u>\$ 42,075,077</u> | <u>\$ 773,333</u> | <u>\$ -0-</u> | <u>\$ 42,848,410</u>      | <u>\$ 39,578,019</u>      |
| <b>LIABILITIES AND NET POSITION</b>                                                                                                         |                      |                   |               |                           |                           |
| <b>Current liabilities</b>                                                                                                                  |                      |                   |               |                           |                           |
| Accounts payable and accrued expenses                                                                                                       | \$ 8,121,934         | \$ -0-            | \$ -0-        | \$ 8,121,934              | \$ 8,734,958              |
| Accrued wages and related liabilities                                                                                                       | 1,693,774            | -0-               | -0-           | 1,693,774                 | 1,599,004                 |
| Line of credit                                                                                                                              | -0-                  | -0-               | -0-           | -0-                       | 76,000                    |
| Current portion of long-term debt                                                                                                           | 634,164              | -0-               | -0-           | 634,164                   | 956,523                   |
| Estimated third-party settlements                                                                                                           | 575,000              | -0-               | -0-           | 575,000                   | -0-                       |
| Total current liabilities                                                                                                                   | 11,024,872           | -0-               | -0-           | 11,024,872                | 11,366,485                |
| <b>Long term debt, net of current portion</b>                                                                                               | 3,600,538            | -0-               | -0-           | 3,600,538                 | 4,289,792                 |
| Total liabilities                                                                                                                           | 14,625,410           | -0-               | -0-           | 14,625,410                | 15,656,277                |
| <b>Net position</b>                                                                                                                         |                      |                   |               |                           |                           |
| Net investment in capital assets                                                                                                            | 12,149,778           | -0-               | -0-           | 12,149,778                | 11,067,001                |
| Restricted                                                                                                                                  |                      |                   |               |                           |                           |
| Expendable for various purposes<br>upon donors' specific restriction                                                                        | 2,327,531            | 632,411           | -0-           | 2,959,942                 | 2,802,545                 |
| Nonexpendable donor restricted                                                                                                              | 1,162,188            | -0-               | -0-           | 1,162,188                 | 1,031,087                 |
| Total restricted net position                                                                                                               | 3,489,719            | 632,411           | -0-           | 4,122,130                 | 3,833,632                 |
| Unrestricted                                                                                                                                | 11,810,170           | 140,922           | -0-           | 11,951,092                | 9,021,109                 |
| Total net position                                                                                                                          | 27,449,667           | 773,333           | -0-           | 28,223,000                | 23,921,742                |
| Total liabilities and net position                                                                                                          | <u>\$ 42,075,077</u> | <u>\$ 773,333</u> | <u>\$ -0-</u> | <u>\$ 42,848,410</u>      | <u>\$ 39,578,019</u>      |

See accompanying notes to consolidated financial statements.

# RUSH MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                                         | 2019              |            |              | 2018                      |                           |
|-----------------------------------------|-------------------|------------|--------------|---------------------------|---------------------------|
|                                         | Total<br>Hospital | Foundation | Eliminations | Total Reporting<br>Entity | Total Reporting<br>Entity |
| <b>Revenues</b>                         |                   |            |              |                           |                           |
| Net patient service revenue             | \$ 75,114,031     | \$ -0-     | \$ (16,347)  | \$ 75,097,684             | \$ 62,207,581             |
| Other operating revenue                 | 624,904           | -0-        | -0-          | 624,904                   | 948,790                   |
| Total revenues                          | 75,738,935        | -0-        | (16,347)     | 75,722,588                | 63,156,371                |
| <b>Expenses</b>                         |                   |            |              |                           |                           |
| Salaries and wages                      | 16,430,623        | -0-        | 3,642        | 16,434,265                | 15,642,205                |
| Employee benefits                       | 4,337,037         | -0-        | -0-          | 4,337,037                 | 3,584,515                 |
| Medical professional fees               | 2,661,441         | -0-        | -0-          | 2,661,441                 | 2,697,208                 |
| Purchased services                      | 21,797,337        | -0-        | -0-          | 21,797,337                | 17,352,898                |
| Medical supplies and drugs              | 9,581,121         | -0-        | -0-          | 9,581,121                 | 8,530,346                 |
| Other supplies                          | 622,416           | -0-        | -0-          | 622,416                   | 743,296                   |
| Food                                    | 147,950           | -0-        | -0-          | 147,950                   | 197,903                   |
| Facility and equipment leases           | 4,360,175         | -0-        | -0-          | 4,360,175                 | 4,294,677                 |
| HAF and HIP Programs                    | 1,500,150         | -0-        | -0-          | 1,500,150                 | 1,180,982                 |
| Depreciation                            | 1,934,321         | -0-        | -0-          | 1,934,321                 | 1,907,744                 |
| Insurance                               | 1,997,257         | -0-        | -0-          | 1,997,257                 | 1,214,472                 |
| Repairs and maintenance                 | 1,034,219         | -0-        | -0-          | 1,034,219                 | 920,183                   |
| Utilities                               | 1,268,547         | -0-        | -0-          | 1,268,547                 | 1,110,968                 |
| Other expenses                          | 4,206,783         | -0-        | -0-          | 4,206,783                 | 3,312,779                 |
| Total expenses                          | 71,879,377        | -0-        | 3,642        | 71,883,019                | 62,690,176                |
| Operating income (loss)                 | 3,859,558         | -0-        | (19,989)     | 3,839,569                 | 466,195                   |
| <b>Nonoperating revenues (expenses)</b> |                   |            |              |                           |                           |
| Investment return                       | 485,226           | 50,073     | -0-          | 535,299                   | (20,369)                  |
| Interest expense                        | (192,996)         | -0-        | -0-          | (192,996)                 | (207,661)                 |
| Contributions                           | 34,937            | 307,191    | (77,394)     | 264,734                   | 417,372                   |
| Other nonoperating revenue (expense)    | -0-               | (242,731)  | 97,383       | (145,348)                 | (86,766)                  |
| Nonoperating revenues (expenses), net   | 327,167           | 114,533    | 19,989       | 461,689                   | 102,576                   |
| Change in net position                  | 4,186,725         | 114,533    | -0-          | 4,301,258                 | 568,771                   |
| <b>Net position</b>                     |                   |            |              |                           |                           |
| Beginning of year                       | 23,262,942        | 658,800    | -0-          | 23,921,742                | 23,352,971                |
| End of year                             | \$ 27,449,667     | \$ 773,333 | \$ -0-       | \$ 28,223,000             | \$ 23,921,742             |

See accompanying notes to consolidated financial statements.

# RUSH MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                                                                                              | 2019              |            |              | 2018                      |                           |
|----------------------------------------------------------------------------------------------|-------------------|------------|--------------|---------------------------|---------------------------|
|                                                                                              | Total<br>Hospital | Foundation | Eliminations | Total Reporting<br>Entity | Total Reporting<br>Entity |
| <b>Operating activities</b>                                                                  |                   |            |              |                           |                           |
| Cash received from patient services                                                          | \$ 74,128,350     | \$ -0-     | \$ (16,347)  | \$ 74,112,003             | \$ 58,645,184             |
| Cash paid for salaries, wages and benefits                                                   | (20,672,890)      | -0-        | (3,642)      | (20,676,532)              | (19,282,387)              |
| Cash paid to vendors and suppliers                                                           | (48,807,185)      | (374)      | -0-          | (48,807,559)              | (41,559,673)              |
| Other receipts, net                                                                          | 624,904           | -0-        | -0-          | 624,904                   | 948,790                   |
| Net cash flows from operating activities                                                     | 5,273,179         | (374)      | (19,989)     | 5,252,816                 | (1,248,086)               |
| <b>Noncapital financing activities</b>                                                       |                   |            |              |                           |                           |
| Contributions                                                                                | 34,937            | 307,191    | (77,394)     | 264,734                   | 417,372                   |
| <b>Capital and related financing activities</b>                                              |                   |            |              |                           |                           |
| Payments on long-term debt                                                                   | (1,011,613)       | -0-        | -0-          | (1,011,613)               | (1,179,707)               |
| Interest payments on long-term debt                                                          | (192,996)         | -0-        | -0-          | (192,996)                 | (207,661)                 |
| Proceeds from borrowings on line of credit                                                   | -0-               | -0-        | -0-          | -0-                       | 76,000                    |
| Payments on line of credit                                                                   | (76,000)          | -0-        | -0-          | (76,000)                  | -0-                       |
| Loss on disposal of capital assets                                                           | -0-               | -0-        | -0-          | -0-                       | 9,527                     |
| Proceeds from the sale of capital assets                                                     | -0-               | -0-        | -0-          | -0-                       | 4,999                     |
| Purchase of capital assets                                                                   | (1,749,485)       | -0-        | -0-          | (1,749,485)               | (1,795,134)               |
| Net cash flows from capital and related financing activities                                 | (3,030,094)       | -0-        | -0-          | (3,030,094)               | (3,091,976)               |
| <b>Investing activities</b>                                                                  |                   |            |              |                           |                           |
| Investment return                                                                            | 485,226           | 50,073     | -0-          | 535,299                   | (20,369)                  |
| Other nonoperating revenue (expense)                                                         | -0-               | (242,731)  | 97,383       | (145,348)                 | (86,766)                  |
| Proceeds from sale of investments                                                            | 696,614           | -0-        | -0-          | 696,614                   | 3,462,181                 |
| Purchases of investments                                                                     | (848,742)         | -0-        | -0-          | (848,742)                 | (337,690)                 |
| Net cash flows from investing activities                                                     | 333,098           | (192,658)  | 97,383       | 237,823                   | 3,017,356                 |
| Net change in cash and cash equivalents                                                      | 2,611,120         | 114,159    | -0-          | 2,725,279                 | (905,334)                 |
| <b>Cash and cash equivalents</b>                                                             |                   |            |              |                           |                           |
| Beginning of year                                                                            | 8,075,049         | 655,174    | -0-          | 8,730,223                 | 9,635,557                 |
| End of year                                                                                  | \$ 10,686,169     | \$ 769,333 | \$ -0-       | \$ 11,455,502             | \$ 8,730,223              |
| <b>Reconciliation of cash and cash equivalents to the balance sheets</b>                     |                   |            |              |                           |                           |
| In current assets                                                                            |                   |            |              |                           |                           |
| Cash and cash equivalents                                                                    | \$ 10,024,946     | \$ 136,922 | \$ -0-       | \$ 10,161,868             | \$ 7,592,172              |
| In assets whose use is limited                                                               | 661,223           | 632,411    | -0-          | 1,293,634                 | 1,138,051                 |
| Total cash and cash equivalents                                                              | \$ 10,686,169     | \$ 769,333 | \$ -0-       | \$ 11,455,502             | \$ 8,730,223              |
| <b>Reconciliation of operating income (loss) to net cash from operating activities</b>       |                   |            |              |                           |                           |
| Operating income (loss)                                                                      | \$ 3,859,558      | \$ -0-     | \$ (19,989)  | \$ 3,839,569              | \$ 466,195                |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities |                   |            |              |                           |                           |
| Depreciation                                                                                 | 1,934,321         | -0-        | -0-          | 1,934,321                 | 1,907,744                 |
| Provision for bad debts                                                                      | 4,503,963         | -0-        | -0-          | 4,503,963                 | 4,428,441                 |
| Changes in operating assets and liabilities                                                  |                   |            |              |                           |                           |
| Patient accounts receivable                                                                  | (4,661,133)       | -0-        | -0-          | (4,661,133)               | (5,913,217)               |
| Other current assets                                                                         | (263,366)         | 77         | -0-          | (263,289)                 | 44,532                    |
| Other assets                                                                                 | -0-               | 2,000      | -0-          | 2,000                     | 2,000                     |
| Accounts payable and accrued expenses                                                        | (866,573)         | (2,451)    | -0-          | (869,024)                 | (1,231,475)               |
| Accrued wages and related liabilities                                                        | 94,770            | -0-        | -0-          | 94,770                    | (55,667)                  |
| Estimated third-party settlements                                                            | 671,639           | -0-        | -0-          | 671,639                   | (896,639)                 |
| Net cash from operating activities                                                           | \$ 5,273,179      | \$ (374)   | \$ (19,989)  | \$ 5,252,816              | \$ (1,248,086)            |
| <b>Noncash capital and noncapital financing activities</b>                                   |                   |            |              |                           |                           |
| Property included within accounts payable                                                    | \$ 256,000        | \$ -0-     | \$ -0-       | \$ 256,000                | \$ 283,260                |

See accompanying notes to consolidated financial statements.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)**

---

### **1. SIGNIFICANT ACCOUNTING POLICIES**

#### Organization and Reporting Entity

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

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its discrete component unit. They do not purport to, and do not, present fairly the financial position of the County as of December 31, 2019, the changes in its financial position or its cash flows for the year then ended.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and a component unit organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and it is financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of and for the year ended December 31, 2018, from which the summarized information was derived.

#### Discrete Component Unit

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Rush Memorial Hospital Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

#### Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of numerous long-term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

The Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the above leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through 2020. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

### Use of Estimates

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

### Measurement Focus and Basis of Accounting

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

### Cash and Cash Equivalents

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

### Investments

Investments consist of cash and mutual funds, which are reported at fair value.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

### Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2017 with differences reflected in net patient service revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2019 and 2018 are reflected in estimated third-party settlements on the consolidated balance sheet. The Hospital recognized an immaterial amount in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2019 and 2018 were approximately \$124,000 and \$127,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately \$51,000 and \$55,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses including interest expense to gross patient service revenue. The Hospital did not change its charity care policy during 2019 and 2018.

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

---

### Other Current Assets

Other current assets include inventories which are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method, prepaid expenses and other receivables related to long-term care operations. These assets are classified as current as they are expected to be utilized during the next fiscal year.

The following is a summary of other current assets as of December 31:

|                   | 2019                | 2018                |
|-------------------|---------------------|---------------------|
| Inventories       | \$ 1,010,522        | \$ 1,059,632        |
| Prepaid expenses  | 527,964             | 472,346             |
| Other receivables | 1,628,474           | 1,371,693           |
|                   | <u>\$ 3,166,960</u> | <u>\$ 2,903,671</u> |

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes such as funded depreciation and investments restricted by donors. These investments consist primarily of cash, common stocks, mutual funds, U.S. government obligations and beneficial interest in perpetual trusts. Investment income, to the extent not capitalized, is reported as nonoperating revenue in the consolidated statement of revenues, expenses and changes in net position.

### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed the Hospital's capitalization threshold and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of estimated useful lives in computing depreciation is as follows:

| Description                | Range of<br>Useful Lives |
|----------------------------|--------------------------|
| Land improvements          | 5-25 years               |
| Buildings and improvements | 5-40 years               |
| Equipment                  | 3-10 years               |

---

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

### Net Position

Net position of the Hospital is classified in four components. (1) Net investment in capital assets consists 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. (2) Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. (3) Restricted nonexpendable donor restricted includes net position restricted by the donor through beneficial interests in perpetual trusts. (4) Unrestricted includes remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted. The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### Consolidated Statement of Revenues, Expenses and Changes in Net Position

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

### Federal or State Income Taxes

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

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Form 990. The Foundation has filed its federal and state income tax returns for periods through December 31, 2018. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

### Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$50,000 and \$52,000 for 2019 and 2018, respectively.

### Compensated Absences

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

### Reclassifications

Certain amounts from the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

### Litigation

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

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. No settlements exceeded insurance coverage for the past three years.

### Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which was July 27, 2020.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

### **2. INVESTMENTS**

Investments consist of mutual funds, which are reported at fair value. As of December 31, 2019 and 2018, mutual fund balances were approximately \$8,000 and \$7,000, respectively.

### **3. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS**

The Hospital is the beneficiary under two perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Although the Hospital has no control over the administration or investment of the funds held in these trusts, the estimated fair value of the Hospital's interest in these trusts is recognized as a contribution in the period in which the Hospital receives notice that the trust agreements convey an unconditional right to receive benefits. The Hospital's interest in these perpetual trusts is reported at fair value, which is estimated as the Hospital's portion of the fair market value of the assets in the trusts. Under the terms of the perpetual trusts, the Hospital receives its portion of interest and dividends earned on the corpuses, which is included as unrestricted investment return in the consolidated statement of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment return in the consolidated statements revenues, expenses and changes in net position. The investment return and changes in the values increased net position by approximately \$250,000 in 2019 and decreased net position by \$62,000 in 2018.

### **4. ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited include:

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

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

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Assets whose use is limited consist of the following as of December 31, 2019 and 2018:

|                                          | 2019                | 2018                |
|------------------------------------------|---------------------|---------------------|
| Assets whose use is limited              |                     |                     |
| Internally designated                    |                     |                     |
| Cash                                     | \$ 144              | \$ 144              |
| Common stocks                            | 4,074               | 4,302               |
| Mutual funds                             | 166,925             | 148,676             |
| Total internally designated              | 171,143             | 153,122             |
| Donor restricted                         |                     |                     |
| Cash                                     | 1,293,490           | 1,137,907           |
| U.S. government obligations              | 854,851             | 1,040,722           |
| Mutual funds                             | 811,601             | 623,916             |
| Beneficial interests in perpetual trusts | 1,162,188           | 1,031,087           |
| Total donor restricted                   | 4,122,130           | 3,833,632           |
| Total assets limited as to use           | <u>\$ 4,293,273</u> | <u>\$ 3,986,754</u> |

### 5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2019 and 2018, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These amounts are included in investments and assets whose use is limited.

| December 31, 2019           |                                  |               |               |               |        |
|-----------------------------|----------------------------------|---------------|---------------|---------------|--------|
| Carrying Amount             | Investment Maturities (in years) |               |               |               |        |
|                             | Less than 1                      | 1-5           | 6-10          | More than 10  |        |
| Common stocks               | \$ 4,074                         | \$ 4,074      | \$ -0-        | \$ -0-        | \$ -0- |
| Mutual funds                | 986,862                          | 986,862       | -0-           | -0-           | -0-    |
| U.S. government obligations | 854,851                          | 854,851       | -0-           | -0-           | -0-    |
| <u>\$ 1,845,787</u>         | <u>\$ 1,845,787</u>              | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |        |

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                             | December 31, 2018                |                     |               |               |                 |
|-----------------------------|----------------------------------|---------------------|---------------|---------------|-----------------|
|                             | Investment Maturities (in years) |                     |               |               |                 |
|                             | Carrying<br>Amount               | Less<br>than 1      | 1-5           | 6-10          | More<br>than 10 |
| Common stocks               | \$ 4,302                         | \$ 4,302            | \$ -0-        | \$ -0-        | \$ -0-          |
| Mutual funds                | 779,736                          | 779,736             | -0-           | -0-           | -0-             |
| U.S. government obligations | 1,040,722                        | 1,040,722           | -0-           | -0-           | -0-             |
|                             | <u>\$ 1,824,760</u>              | <u>\$ 1,824,760</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u>   |

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

Concentration of credit risk - The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

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

|                                        | 2019                 | 2018                 |
|----------------------------------------|----------------------|----------------------|
| Carrying amount                        |                      |                      |
| Deposits                               | \$ 11,455,502        | \$ 8,730,223         |
| Investments                            | <u>1,845,787</u>     | <u>1,824,760</u>     |
|                                        | <u>\$ 13,301,289</u> | <u>\$ 10,554,983</u> |
| Included in the balance sheet captions |                      |                      |
| Cash                                   | \$ 10,161,868        | \$ 7,592,172         |
| Investments                            | 8,336                | 7,144                |
| Assets whose use is limited            |                      |                      |
| Internally designated                  | 171,143              | 153,122              |
| Donor restricted                       | <u>2,959,942</u>     | <u>2,802,545</u>     |
|                                        | <u>\$ 13,301,289</u> | <u>\$ 10,554,983</u> |

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

---

### 6. FAIR VALUE MEASUREMENTS

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2019 and 2018:

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

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018 are as follows:

|                                          | December 31, 2019 |              |         |              |
|------------------------------------------|-------------------|--------------|---------|--------------|
|                                          | Total             | Level 1      | Level 2 | Level 3      |
| <b>Assets</b>                            |                   |              |         |              |
| Investments                              |                   |              |         |              |
| Mutual funds - value funds               | \$ 8,336          | \$ 8,336     | \$ -0-  | \$ -0-       |
| Assets whose use is limited              |                   |              |         |              |
| Common stock                             | \$ 4,074          | \$ 4,074     | \$ -0-  | \$ -0-       |
| Mutual funds                             |                   |              |         |              |
| Blend fund                               | 759,753           | 759,753      | -0-     | -0-          |
| Real estate                              | 123,183           | 123,183      | -0-     | -0-          |
| Other                                    | 95,590            | 95,590       | -0-     | -0-          |
| Total mutual funds                       | 978,526           | 978,526      | -0-     | -0-          |
| U.S. government obligations              | 854,851           | 854,851      | -0-     | -0-          |
| Beneficial interests in perpetual trusts | 1,162,188         | -0-          | -0-     | 1,162,188    |
|                                          | 2,999,639         | \$ 1,837,451 | \$ -0-  | \$ 1,162,188 |
| Cash                                     | 1,293,634         |              |         |              |
| Total assets whose use is limited        | \$ 4,293,273      |              |         |              |
|                                          |                   |              |         |              |
|                                          | December 31, 2018 |              |         |              |
|                                          | Total             | Level 1      | Level 2 | Level 3      |
| <b>Assets</b>                            |                   |              |         |              |
| Investments                              |                   |              |         |              |
| Mutual funds - value funds               | \$ 7,144          | \$ 7,144     | \$ -0-  | \$ -0-       |
| Assets whose use is limited              |                   |              |         |              |
| Common stock                             | \$ 4,302          | \$ 4,302     | \$ -0-  | \$ -0-       |
| Mutual funds                             |                   |              |         |              |
| Blend fund                               | 499,638           | 499,638      | -0-     | -0-          |
| Real estate                              | 120,795           | 120,795      | -0-     | -0-          |
| Other                                    | 152,159           | 152,159      | -0-     | -0-          |
| Total mutual funds                       | 772,592           | 772,592      | -0-     | -0-          |
| U.S. government obligations              | 1,040,722         | 1,040,722    | -0-     | -0-          |
| Beneficial interests in perpetual trusts | 1,031,087         | -0-          | -0-     | 1,031,087    |
|                                          | 2,848,703         | \$ 1,817,616 | \$ -0-  | \$ 1,031,087 |
| Cash                                     | 1,138,051         |              |         |              |
| Total assets whose use is limited        | \$ 3,986,754      |              |         |              |

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

The following is a reconciliation of activity for 2019 and 2018 for level 3 assets:

|                            | 2019                | 2018                |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 1,031,087        | \$ 1,175,549        |
| Realized gain              | 92,054              | 65,700              |
| Unrealized (loss)/gain     | 157,759             | (127,313)           |
| Purchases                  | (623,269)           | (245,306)           |
| Sales                      | 662,269             | 261,167             |
| Settlements                | (157,712)           | (98,710)            |
| Balance, end of year       | <u>\$ 1,162,188</u> | <u>\$ 1,031,087</u> |

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019 and 2018.

Realized gains of approximately \$92,000 and \$66,000 for 2019 and 2018, respectively, and unrealized gains of approximately \$158,000 for 2019 and unrealized losses of approximately \$127,000 for 2018, are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment return.

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

## 7. CAPITAL ASSETS

Progressions for capital assets for 2019 and 2018 follow:

|                                | December 31,<br>2018 | Additions        | Retirements     | Transfers     | December 31,<br>2019 |
|--------------------------------|----------------------|------------------|-----------------|---------------|----------------------|
| Land                           | \$ 188,708           | \$ -0-           | \$ -0-          | \$ -0-        | \$ 188,708           |
| Land improvements              | 455,967              | 20,680           | -0-             | -0-           | 476,647              |
| Buildings and improvements     | 19,156,023           | 67,553           | -0-             | 235,976       | 19,459,552           |
| Equipment                      | 18,535,237           | 918,878          | (13,824)        | 623,445       | 20,063,736           |
| Construction in progress       | 369,961              | 998,374          | -0-             | (859,421)     | 508,914              |
| Total capital assets           | <u>38,705,896</u>    | <u>2,005,485</u> | <u>(13,824)</u> | <u>-0-</u>    | <u>40,697,557</u>    |
| Accumulated depreciation       |                      |                  |                 |               |                      |
| Land improvements              | 320,306              | 26,201           | -0-             | -0-           | 346,507              |
| Buildings and improvements     | 9,339,732            | 523,187          | -0-             | -0-           | 9,862,919            |
| Equipment                      | 12,732,542           | 1,384,933        | (13,824)        | -0-           | 14,103,651           |
| Total accumulated depreciation | <u>22,392,580</u>    | <u>1,934,321</u> | <u>(13,824)</u> | <u>-0-</u>    | <u>24,313,077</u>    |
| Capital assets, net            | <u>\$ 16,313,316</u> | <u>\$ 71,164</u> | <u>\$ -0-</u>   | <u>\$ -0-</u> | <u>\$ 16,384,480</u> |

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                                | December 31,<br>2017 | Additions  | Retirements | Transfers   | December 31,<br>2018 |
|--------------------------------|----------------------|------------|-------------|-------------|----------------------|
| Land                           | \$ 188,708           | \$ -0-     | \$ -0-      | \$ -0-      | \$ 188,708           |
| Land improvements              | 455,967              | -0-        | -0-         | -0-         | 455,967              |
| Buildings and improvements     | 17,421,916           | 246,539    | (13,742)    | 1,501,310   | 19,156,023           |
| Equipment                      | 17,312,377           | 1,464,039  | (519,760)   | 278,581     | 18,535,237           |
| Construction in progress       | 1,782,036            | 367,816    | -0-         | (1,779,891) | 369,961              |
| Total capital assets           | 37,161,004           | 2,078,394  | (533,502)   | -0-         | 38,705,896           |
| Less accumulated depreciation: |                      |            |             |             |                      |
| Land improvements              | 294,577              | 25,729     | -0-         | -0-         | 320,306              |
| Buildings and improvements     | 8,827,690            | 524,717    | (12,675)    | -0-         | 9,339,732            |
| Equipment                      | 11,881,545           | 1,357,298  | (506,301)   | -0-         | 12,732,542           |
| Total accumulated depreciation | 21,003,812           | 1,907,744  | (518,976)   | -0-         | 22,392,580           |
| Capital assets, net            | \$ 16,157,192        | \$ 170,650 | \$ (14,526) | \$ -0-      | \$ 16,313,316        |

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

### 8. DEBT

The following is a summary of the Hospital's debt as of December 31, 2019 and 2018:

|                                                                                                                                                                                                                                                                                                                                   | 2019         | 2018         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Note payable series 2005A to financial institution dated July 7, 2005, monthly principal and interest payments of \$14,600 with a fixed rate of 4.523%, with maturity at June 2030, collateralized by property and equipment with a net book value of \$1,160,000 and \$1,287,000 as of December 31, 2019 and 2018, respectively. | \$ 1,447,398 | \$ 1,553,575 |
| Note payable to financial institution dated January 13, 2017, monthly principal and interest payments of \$38,882 with a fixed rate of 2.40%, with maturity at July 2024, collateralized by equipment with a net book value of \$1,646,000 and \$2,046,000 as of December 31, 2019 and 2018, respectively.                        | 2,022,340    | 2,433,013    |
| Note payable to financial institution dated September 29, 2014, monthly principal and interest payments of \$34,629 at a fixed rate of 2.49% with maturity at September 2019, collateralized by equipment with a net book value of \$300,000 as of December 31, 2018.                                                             | -0-          | 308,416      |
| Note payable with financial institution dated February 8, 2015, with monthly principal and interest payments of \$11,436 at a fixed rate of 4.89%, with maturity at February 2025, collateralized by building with a net book value of \$1,809,000 and \$1,863,000 as of December 31, 2019 and 2018, respectively.                | 764,964      | 907,795      |
| Other                                                                                                                                                                                                                                                                                                                             | -0-          | 43,516       |
|                                                                                                                                                                                                                                                                                                                                   | 4,234,702    | 5,246,315    |
| Less current portion                                                                                                                                                                                                                                                                                                              | 634,164      | 956,523      |
|                                                                                                                                                                                                                                                                                                                                   | \$ 3,600,538 | \$ 4,289,792 |

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Progressions for long-term debt for 2019 and 2018 include the following:

|               | December 31,<br>2018 | Additional<br>Borrowings | Payments       | December 31,<br>2019 | Current<br>Portion |
|---------------|----------------------|--------------------------|----------------|----------------------|--------------------|
| Notes payable | \$ 5,246,315         | \$ -0-                   | \$ (1,011,613) | \$ 4,234,702         | \$ 634,164         |

  

|               | December 31,<br>2017 | Additional<br>Borrowings | Payments       | December 31,<br>2018 | Current<br>Portion |
|---------------|----------------------|--------------------------|----------------|----------------------|--------------------|
| Notes payable | \$ 6,426,022         | \$ -0-                   | \$ (1,179,707) | \$ 5,246,315         | \$ 956,523         |

Aggregate maturities of long-term debt are as follows:

| Years Ending<br>December 31, | Principal           | Interest          | Total               |
|------------------------------|---------------------|-------------------|---------------------|
| 2020                         | \$ 634,164          | \$ 146,483        | \$ 780,647          |
| 2021                         | 653,102             | 125,897           | 778,999             |
| 2022                         | 674,249             | 104,751           | 779,000             |
| 2023                         | 696,165             | 83,015            | 779,180             |
| 2024                         | 519,132             | 65,458            | 584,590             |
| 2025-2029                    | 980,120             | 114,377           | 1,094,497           |
| 2030                         | 77,770              | 1,152             | 78,922              |
|                              | <u>\$ 4,234,702</u> | <u>\$ 641,133</u> | <u>\$ 4,875,835</u> |

The Hospital has a line of credit available with a local financial institution with a maximum amount of \$3,500,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 3.75% (4.75% as of December 31, 2019). The Hospital had \$-0- and \$76,000 outstanding on the line of credit as of December 31, 2019 and 2018, respectively. The line of credit expires in September 2020 and is collateralized by deposit accounts of approximately \$3,543,000 as of December 31, 2019. Subsequent to December 31, 2019, the Hospital increased the line of credit to a maximum amount of \$6,000,000.

### 9. NET PATIENT SERVICE REVENUE

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

## **RUSH MEMORIAL HOSPITAL**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**(WITH COMPARATIVE TOTALS FOR 2018)**

---

#### Medicare

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

#### Medicaid and the Hospital Assessment Fee and Healthy Indiana Plan Programs

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

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP program mirror the Medicaid payments under the HAF program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2019 and 2018, the Hospital recognized HAF and HIP Program expenses of approximately \$1,500,000 and \$1,181,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the consolidated statement of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$788,000 during both 2019 and 2018. These programs are administered by the State of Indiana, but rely on Federal funding.

#### Other Payors

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

---

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

---

Patient service revenue for 2019 and 2018 consists of the following:

|                               | 2019          | 2018          |
|-------------------------------|---------------|---------------|
| Patient service revenue       |               |               |
| Inpatient                     | \$ 6,190,364  | \$ 5,769,535  |
| Outpatient                    | 89,024,398    | 75,789,837    |
| Long-term care                | 36,262,414    | 29,585,539    |
| Patient service revenue       | 131,477,176   | 111,144,911   |
| Deductions from revenue       |               |               |
| Contractual allowances        | 51,751,917    | 44,381,642    |
| Charity care                  | 123,612       | 127,247       |
| Provision for bad debts       | 4,503,963     | 4,428,441     |
| Total deductions from revenue | 56,379,492    | 48,937,330    |
| Net patient service revenue   | \$ 75,097,684 | \$ 62,207,581 |

### 10. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2021. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2019 and 2018 was approximately \$24,000 and \$23,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$4,336,000 and \$4,271,000 for 2019 and 2018, respectively. Annual rent expense under these leases will approximate \$4,340,000 for 2020 and 2021.

### 11. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan, Rush Memorial Hospital Employees' Pension Plan (the Plan), as authorized by Indiana Code 16-22-3-11. The Plan provides retirement, disability and death benefits to its members and beneficiaries. The Plan was established by written agreement by the Hospital's Board of Trustees. American United Life Insurance Company is the custodian and the third-party administrator of the Plan. For more information on the Plan, participants should contact the Hospital Controller's Office, PO Box 125, Rushville, IN, 46173.

#### Funding Policy

The contribution requirements of plan members are established by the written agreement by the Hospital's Board of Trustees. The Hospital is required to contribute at the Board approved rate. The Hospital makes a matching contribution equal to 100% of an eligible employee's salary reduction contributions up to 5% of their eligible compensation. Forfeitures for non-vested contributions can be used to offset Hospital contributions. Pension expense was approximately \$422,000 and \$357,000 for 2019 and 2018, respectively.

---

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

---

### 12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Rushville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables and gross revenue from patients and third-party payors as of and for the years ended December 31, 2019 and 2018 was as follows:

|            | Receivables |             | Revenues    |             |
|------------|-------------|-------------|-------------|-------------|
|            | 2019        | 2018        | 2019        | 2018        |
| Medicare   | 31%         | 29%         | 43%         | 43%         |
| Medicaid   | 27%         | 32%         | 25%         | 25%         |
| Blue Cross | 7%          | 7%          | 10%         | 12%         |
| Commercial | 16%         | 14%         | 14%         | 13%         |
| Self-pay   | 19%         | 18%         | 8%          | 7%          |
|            | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

### 13. RESTRICTED NONEXPENDABLE NET POSITION

Restricted nonexpendable net position includes perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Restricted nonexpendable net position was approximately \$1,162,000 and \$1,031,000 as of December 31, 2019 and 2018, respectively.

### 14. SELF INSURANCE

The Hospital is self-insured for employee health claims. A third-party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$80,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$2,640,000 and \$2,002,000 for 2019 and 2018, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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

|                                          | 2019              | 2018              |
|------------------------------------------|-------------------|-------------------|
| Unpaid claims, beginning of year         | \$ 200,000        | \$ 328,256        |
| Incurred claims and changes in estimates | 2,639,930         | 2,002,384         |
| Claim payments                           | (2,520,610)       | (2,130,640)       |
| Unpaid claims, end of year               | <u>\$ 319,320</u> | <u>\$ 200,000</u> |

---

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

---

### 15. RISK MANAGEMENT

#### Risk Management

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

#### Medical Malpractice

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital has commercial insurance for malpractice (in addition to coverage under the Act) under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$400,000, if not covered under the Act, or aggregate claims exceeding \$8,000,000, if not covered under the Act, for claims asserted in the policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for general liability and employee medical claims.

# RUSH MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR 2018)

---

### 16. RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 95 postpones the effective date of Statement No. 89 by one year. Statement No. 89 will be effective for periods beginning after December 15, 2020.

The Hospital is presently evaluating the impact of these standards on its future consolidated financial statements.

# **RUSH MEMORIAL HOSPITAL**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)**

---

### **17. SUBSEQUENT EVENTS**

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

In May 2020, the Hospital received a low interest loan in the approximate amount of \$2,734,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria are met with the remaining balance repayable up to five years after disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period options available under the PPP guidance. In addition, employers must maintain specified employment and wage levels during the pandemic, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

Additionally, the Hospital increased its line of credit agreement with a local lender to \$6,000,000 to meet liquidity demands as needed. As of July 27, 2020, no amounts have been drawn on the line of credit.