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October 24, 2022

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, 2021 to December 31, 2021. 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, 2021, 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 Indiana State Board of Accounts.

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

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



RUSH MEMORIAL
H o s p i t a l

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

CPAs / ADVISORS



RUSH MEMORIAL HOSPITAL

TABLE OF CONTENTS
DECEMBER 31, 2021

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management’s Discussion and Analysis (Unaudited).....	MDA - i
Financial Statements	
Balance Sheet	4
Statement of Revenues, Expenses and Changes in Net Position.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7
Reporting Under <i>Government Auditing Standards</i> and the <i>Uniform Guidance</i>	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards Required by the <i>Uniform Guidance</i>	29
Schedule of Expenditures of Federal Awards.....	32
Notes to Schedule of Expenditures of Federal Awards.....	33
Schedule of Findings and Questioned Costs	34



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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on the Audit of Financial Statements

Opinions

We have audited the accompanying 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., which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

In our opinions, the 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, 2021, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on Summarized Comparative Information

We have previously audited the Hospital's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated July 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited 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 financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audits of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2022 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
September 26, 2022

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2021

(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

This section of Rush Memorial Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during 2021. 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 financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$9,322,000 or 28.6% in 2021 compared to \$4,372,000 or 15.5% in 2020.
- The Hospital reported an operating income of approximately \$2,678,000 for 2021, representing an increase of \$1,902,000 in comparison to the year 2020 results.
- The Hospital's investment in capital assets increased in 2021 by approximately \$1,863,000. Additions of \$4,010,000 in property and equipment were offset by depreciation expense of \$2,103,000 with accumulated depreciation of \$28,269,000 as of December 31, 2021.
- The Hospital's cash and investments in current assets increased approximately \$3,086,000 and patient accounts receivable decreased \$172,000.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately \$35,215,000 and \$37,357,000 in patient service revenue during 2021 and 2020, respectively.

USING THIS ANNUAL REPORT

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

The 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 statement of revenues, expenses and changes in net position.

Finally, the 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, 2021 (WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

THE 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 balance sheet and the 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: Balance Sheet

	2021	2020	2021-2020 Change	2019	2020-2019 Change
Assets					
Current assets	\$ 40,094,861	\$ 36,800,117	\$ 3,294,744	\$ 21,589,787	\$ 15,210,330
Assets whose use is limited	4,754,504	4,374,617	379,887	4,293,273	81,344
Capital assets	19,374,454	17,510,961	1,863,493	16,384,480	1,126,481
Other assets	4,070	3,870	200	5,870	(2,000)
Total assets	<u>\$ 64,227,889</u>	<u>\$ 58,689,565</u>	<u>\$ 5,538,324</u>	<u>\$ 42,273,410</u>	<u>\$ 16,416,155</u>
Liabilities					
Current liabilities	\$ 20,159,515	\$ 23,209,603	\$ (3,050,088)	\$ 10,449,872	\$ 12,759,731
Long-term debt	2,150,912	2,884,925	(734,013)	3,600,538	(715,613)
Total liabilities	22,310,427	26,094,528	(3,784,101)	14,050,410	12,044,118
Net position					
Net investment in capital assets	16,541,116	11,234,164	5,306,952	12,149,778	(915,614)
Restricted	4,546,235	4,191,175	355,060	4,122,130	69,045
Unrestricted	20,830,111	17,169,698	3,660,413	11,951,092	5,218,606
Total net position	41,917,462	32,595,037	9,322,425	28,223,000	4,372,037
Total liabilities and net position	<u>\$ 64,227,889</u>	<u>\$ 58,689,565</u>	<u>\$ 5,538,324</u>	<u>\$ 42,273,410</u>	<u>\$ 16,416,155</u>

Current assets increased approximately \$3,295,000 in 2021 mainly due to an increase in cash and cash equivalents. Assets whose use is limited increased \$380,000 in 2021 and \$81,000 in 2020. Net capital assets increased \$1,863,000 compared to an increase of \$1,126,000 in 2020 based on the Hospital's capital additions and associated depreciation expense.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2021

(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

Current liabilities decreased by approximately \$3,050,000 in 2021 mainly related to changes in the Paycheck Payroll Program (PPP) loan and deferred liability compared to an increase of \$12,760,000 in 2020. Long-term debt decreased \$734,000 in 2021 due to current year principal payments. This compares to a decrease in long-term debt of \$716,000 in 2020.

Net position increased approximately \$9,322,000 in 2021 and \$4,372,000 in 2020. The increase in 2021 and 2020 is related to favorable operations.

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

	2021	2020	2021-2020 Change	2019	2020-2019 Change
Revenues					
Net patient service revenue	\$ 81,593,391	\$ 75,735,655	\$ 5,857,736	\$ 75,097,684	\$ 637,971
Other operating revenue	1,115,524	543,871	571,653	624,904	(81,033)
Total revenue	82,708,915	76,279,526	6,429,389	75,722,588	556,938
Expenses					
Salary and benefits	25,017,282	21,522,056	3,495,226	20,771,302	750,754
Purchased services and medical fees	24,454,014	26,833,760	(2,379,746)	24,458,778	2,374,982
Medical and other supplies	11,380,484	11,242,570	137,914	10,203,537	1,039,033
Depreciation	2,103,136	2,012,369	90,767	1,934,321	78,048
Other expenses	17,075,907	13,892,618	3,183,289	14,515,081	(622,463)
Total operating expenses	80,030,823	75,503,373	4,527,450	71,883,019	3,620,354
Operating income	2,678,092	776,153	1,901,939	3,839,569	(3,063,416)
Non-operating revenue (expense), net	6,644,333	3,595,884	3,048,449	461,689	3,134,195
Change in net position	<u>\$ 9,322,425</u>	<u>\$ 4,372,037</u>	<u>\$ 4,950,388</u>	<u>\$ 4,301,258</u>	<u>\$ 70,779</u>

The Hospital had positive performance in 2021 with a return on equity of 28.6% compared to return on equity of 15.5% in 2020 and 18.0% in 2019.

Total revenues increased approximately \$6,429,000 in 2021 compared to an increase of approximately \$557,000 in 2020. The 2020 operations were impacted by the Coronavirus (COVID-19) pandemic. Long-term care revenue was \$35,215,000 in 2021 and \$37,357,000 in 2020.

Expenses increased by approximately \$4,527,000 and \$3,620,000 in 2021 and 2020, respectively. The 2021 and 2020 increases are primarily in purchased services and medical supplies.

Nonoperating revenue (expense), net increased by approximately \$3,048,000 and \$3,134,000 in 2021 and 2020, respectively. The increase in 2021 is primarily due to COVID-19 grants from the PPP loan forgiveness and the Provider Relief Fund, and the increase in 2020 is primarily due to Provider Relief Fund grants and contributions. Interest expense was \$129,000 in 2021 and \$142,000 in 2020.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

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?"

	2021	2020	2021-2020 Change	2019	2020-2019 Change
Cash flow from activities					
Operating	\$ 5,598,382	\$ 3,682,512	\$ 1,915,870	\$ 5,252,816	\$ (1,570,304)
Noncapital financing	2,019,748	8,268,603	(6,248,855)	264,734	8,003,869
Capital and related financing	(4,255,610)	(1,166,159)	(3,089,451)	(3,030,094)	1,863,935
Investing	(502,988)	6,948	(509,936)	237,823	(230,875)
Change in cash equivalents	<u>\$ 2,859,532</u>	<u>\$ 10,791,904</u>	<u>\$ (7,932,372)</u>	<u>\$ 2,725,279</u>	<u>\$ 8,066,625</u>

Total cash and cash equivalents increased approximately \$2,860,000 in 2021. Operating activities increased cash and cash equivalents by \$5,598,000 during 2021 mainly from an increase in revenues. Noncapital financing provided \$2,020,000 of cash and cash equivalents primarily due to COVID-19 grant funds. Capital and related financing decreased cash and cash equivalents by \$4,256,000 during 2021 mainly from the purchase of capital assets, payments on long-term debt, and interest payments on long-term debt. Investing activities decreased cash and cash equivalents by \$503,000 due to investment return.

Total cash and cash equivalents increased approximately \$10,792,000 in 2020. Operating activities increased cash and cash equivalents by \$3,683,000 during 2020 mainly from an increase in revenues. Noncapital financing provided \$8,269,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$1,166,000 during 2020 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 \$7,000 due to investment return and proceeds from sale of investments during the year.

SOURCES OF REVENUE

During 2021, 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 69% and 67% of the Hospital's gross revenues in 2021 and 2020, respectively.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2021

(WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

Following is a table of major sources of gross patient revenues, including long-term care, for the past three years:

Payor Mix	2021	2020	2019
Medicare	44%	43%	43%
Medicaid	25%	24%	25%
Blue Cross/Anthem	10%	10%	12%
Commercial insurance	15%	16%	13%
Self-pay	6%	7%	7%
Total	100%	100%	100%

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 financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

CAPITAL ASSETS

The Hospital's capital assets increased approximately \$1,863,000 and \$1,126,000 net of asset disposals and depreciation in 2021 and 2020, respectively. The change in capital assets is outlined in the following table:

	2021	2020	2021-2020 Change	2019	2020-2019 Change
Land and improvements	\$ 738,139	\$ 675,255	\$ 62,884	\$ 665,355	\$ 9,900
Buildings and improvements	22,897,077	19,884,461	3,012,616	19,459,552	424,909
Equipment	23,207,487	21,469,770	1,737,717	20,063,736	1,406,034
Construction in progress	801,087	1,780,799	(979,712)	508,914	1,271,885
Total capital assets	47,643,790	43,810,285	3,833,505	40,697,557	3,112,728
Accumulated depreciation	(28,269,336)	(26,299,324)	(1,970,012)	(24,313,077)	(1,986,247)
Capital assets, net	<u>\$ 19,374,454</u>	<u>\$ 17,510,961</u>	<u>\$ 1,863,493</u>	<u>\$ 16,384,480</u>	<u>\$ 1,126,481</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 financial statements.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020 AND 2019)

DEBT

Total long-term debt (including current portion) decreased from approximately \$6,277,000 to \$2,833,000 in 2021 based primarily on the forgiveness of the PPP loan. More detailed information about the Hospital's long-term debt is presented in the notes to the financial statements.

ECONOMIC OUTLOOK

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 continue to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact 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 that the healthcare 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 healthcare 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 healthcare. Consequently, the healthcare 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

BALANCE SHEET DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	2021		2020	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
ASSETS				
Current assets				
Cash and cash equivalents	\$ 23,922,427	\$ 135,714	\$ 24,058,141	\$ 20,970,172
Investments	10,664	-0-	10,664	12,235
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$2,270,000 in 2021 and \$2,337,000 in 2020	9,721,413	-0-	9,721,413	9,893,349
Other current assets	6,304,643	-0-	6,304,643	5,924,361
Total current assets	39,959,147	135,714	40,094,861	36,800,117
Assets whose use is limited				
Internally designated	208,269	-0-	208,269	183,442
Donor restricted	3,794,011	752,224	4,546,235	4,191,175
Total assets whose use is limited	4,002,280	752,224	4,754,504	4,374,617
Capital assets				
Land	188,708	-0-	188,708	188,708
Depreciable capital assets, net	19,185,746	-0-	19,185,746	17,322,253
Total capital assets, net	19,374,454	-0-	19,374,454	17,510,961
Other assets				
	4,070	-0-	4,070	3,870
Total assets	<u>\$ 63,339,951</u>	<u>\$ 887,938</u>	<u>\$ 64,227,889</u>	<u>\$ 58,689,565</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable and accrued expenses	\$ 12,818,989	\$ -0-	\$ 12,818,989	\$ 12,377,340
Accrued wages and related liabilities	2,435,555	-0-	2,435,555	2,061,243
Current portion of long-term debt	682,426	-0-	682,426	3,391,872
Estimated third-party settlements	1,500,000	-0-	1,500,000	740,242
Deferred liabilities	2,722,545	-0-	2,722,545	4,638,906
Total current liabilities	20,159,515	-0-	20,159,515	23,209,603
Long term debt, net of current portion				
	2,150,912	-0-	2,150,912	2,884,925
Total liabilities	22,310,427	-0-	22,310,427	26,094,528
Net position				
Net investment in capital assets	16,541,116	-0-	16,541,116	11,234,164
Restricted				
Expendable for various purposes upon donors' specific restriction	2,456,821	752,224	3,209,045	2,933,715
Nonexpendable donor restricted	1,337,190	-0-	1,337,190	1,257,460
Total restricted net position	3,794,011	752,224	4,546,235	4,191,175
Unrestricted	20,694,397	135,714	20,830,111	17,169,698
Total net position	41,029,524	887,938	41,917,462	32,595,037
Total liabilities and net position	<u>\$ 63,339,951</u>	<u>\$ 887,938</u>	<u>\$ 64,227,889</u>	<u>\$ 58,689,565</u>

See accompanying notes to financial statements.

RUSH MEMORIAL HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	2021		2020	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
Revenues				
Net patient service revenue	\$ 81,593,391	\$ -0-	\$ 81,593,391	\$ 75,735,655
Other operating revenue	1,115,524	-0-	1,115,524	543,871
Total revenues	82,708,915	-0-	82,708,915	76,279,526
Expenses				
Salaries and wages	20,286,748	-0-	20,286,748	17,643,537
Employee benefits	4,730,534	-0-	4,730,534	3,878,519
Medical professional fees	2,633,987	-0-	2,633,987	2,526,467
Purchased services	21,820,027	-0-	21,820,027	24,307,293
Medical supplies and drugs	10,714,601	-0-	10,714,601	10,620,424
Other supplies	665,883	-0-	665,883	622,146
Food	99,435	-0-	99,435	92,183
Facility and equipment leases	4,501,948	-0-	4,501,948	4,391,839
HAF and HIP Programs	2,029,902	-0-	2,029,902	1,279,092
Depreciation	2,103,136	-0-	2,103,136	2,012,369
Insurance	1,899,657	-0-	1,899,657	1,971,997
Repairs and maintenance	1,112,370	-0-	1,112,370	1,031,987
Utilities	1,288,546	-0-	1,288,546	1,176,532
Other expenses	6,144,049	-0-	6,144,049	3,948,988
Total expenses	80,030,823	-0-	80,030,823	75,503,373
Operating income	2,678,092	-0-	2,678,092	776,153
Nonoperating revenues (expenses)				
Investment return	370,755	47,508	418,263	353,567
Interest expense	(129,241)	-0-	(129,241)	(142,404)
Contributions	100,844	353,428	454,272	749,469
COVID-19 grant funds	3,481,837	-0-	3,481,837	2,880,228
PPP loan forgiveness	2,733,700	-0-	2,733,700	-0-
Other nonoperating revenue (expense)	(3,256)	(311,242)	(314,498)	(244,976)
Nonoperating revenues (expenses), net	6,554,639	89,694	6,644,333	3,595,884
Change in net position	9,232,731	89,694	9,322,425	4,372,037
Net position				
Beginning of year	31,796,793	798,244	32,595,037	28,223,000
End of year	<u>\$ 41,029,524</u>	<u>\$ 887,938</u>	<u>\$ 41,917,462</u>	<u>\$ 32,595,037</u>

See accompanying notes to financial statements.

RUSH MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	2021		2020	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
Operating activities				
Cash received from patient services	\$ 80,495,183	\$ -0-	\$ 80,495,183	\$ 73,556,079
Cash paid for salaries, wages and benefits	(24,642,970)	-0-	(24,642,970)	(21,154,587)
Cash paid to vendors and suppliers	(51,369,355)	-0-	(51,369,355)	(49,262,851)
Other receipts, net	1,115,524	-0-	1,115,524	543,871
Net cash flows from operating activities	5,598,382	-0-	5,598,382	3,682,512
Noncapital financing activities				
Contributions	100,844	353,428	454,272	749,469
COVID-19 grant funds	1,565,476	-0-	1,565,476	7,519,134
Net cash flows from non-capital financing activities	1,666,320	353,428	2,019,748	8,268,603
Capital and related financing activities				
Proceeds from borrowings on long-term debt	-0-	-0-	-0-	2,733,700
Payments on long-term debt	(709,759)	-0-	(709,759)	(691,605)
Interest payments on long-term debt	(129,241)	-0-	(129,241)	(142,404)
Loss on disposal of capital assets	3,256	-0-	3,256	(12,051)
Proceeds from the sale of capital assets	40,380	-0-	40,380	20,482
Purchase of capital assets	(3,460,246)	-0-	(3,460,246)	(3,074,281)
Net cash flows from capital and related financing activities	(4,255,610)	-0-	(4,255,610)	(1,166,159)
Investing activities				
Investment return	370,755	47,508	418,263	353,567
Other nonoperating revenue (expense)	(3,256)	(311,242)	(314,498)	(244,976)
Proceeds from sale of investments	543,442	-0-	543,442	538,601
Purchases of investments	(1,150,195)	-0-	(1,150,195)	(640,244)
Net cash flows from investing activities	(239,254)	(263,734)	(502,988)	6,948
Net change in cash and cash equivalents	2,769,838	89,694	2,859,532	10,791,904
Cash and cash equivalents				
Beginning of year	21,449,162	798,244	22,247,406	11,455,502
End of year	24,219,000	\$ 887,938	\$ 25,106,938	\$ 22,247,406
Reconciliation of cash and cash equivalents to the balance sheets				
In current assets				
Cash and cash equivalents	\$ 23,922,427	\$ 135,714	\$ 24,058,141	\$ 20,970,172
In assets whose use is limited	296,573	752,224	1,048,797	1,277,234
Total cash and cash equivalents	\$ 24,219,000	\$ 887,938	\$ 25,106,938	\$ 22,247,406
Reconciliation of operating income to net cash from operating activities				
Operating income	\$ 2,678,092	\$ -0-	\$ 2,678,092	\$ 776,153
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation	2,103,136	-0-	2,103,136	2,012,369
Provision for bad debts	(3,045,027)	-0-	(3,045,027)	(3,871,149)
Changes in operating assets and liabilities				
Patient accounts receivable	3,216,963	-0-	3,216,963	2,805,423
Other current assets	(380,282)	-0-	(380,282)	(2,757,401)
Other assets	(200)	-0-	(200)	2,000
Accounts payable and accrued expenses	(108,370)	-0-	(108,370)	4,182,406
Accrued wages and related liabilities	374,312	-0-	374,312	367,469
Estimated third-party settlements	759,758	-0-	759,758	165,242
Net cash from operating activities	\$ 5,598,382	\$ -0-	\$ 5,598,382	\$ 3,682,512
Noncash capital and noncapital financing activities				
Property included within accounts payable	\$ 550,019	\$ -0-	\$ 550,019	\$ 73,000
PPP loan forgiveness	\$ 2,733,700	\$ -0-	\$ 2,733,700	\$ -0-

See accompanying notes to financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020)

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 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, 2021, 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 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 financial statements as of and for the year ended December 31, 2020, 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 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.

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 FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 2023. 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 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 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 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 mutual funds, which are reported at fair value.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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, 2019 with differences reflected in net patient service revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2021 and 2020 are reflected in estimated third-party settlements on the balance sheet. The Hospital recognized an immaterial amount in net patient service revenue in the 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 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 2021 and 2020 were approximately \$68,000 and \$125,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately \$25,000 and \$49,000 arose from providing services to charity patients during 2021 and 2020, 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 2021 and 2020.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

Other Current Assets

Other current assets include inventories which are valued at the lower of cost or net realizable value 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:

	<u>2021</u>	<u>2020</u>
Inventories	\$ 1,261,855	\$ 1,291,380
Prepaid expenses	532,718	590,483
Other receivables	<u>4,510,070</u>	<u>4,042,498</u>
	<u>\$ 6,304,643</u>	<u>\$ 5,924,361</u>

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the 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 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:

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

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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.

Statement of Revenues, Expenses and Changes in Net Position

The Hospital's 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 healthcare 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 healthcare 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, 2020. 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, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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 FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 \$67,000 and \$56,000 for 2021 and 2020, 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 financial statements.

Reclassifications

Certain summarized amounts from the 2020 total column have been reclassified to conform to the current year presentation. Accounts payable of approximately \$1,383,000 as of December 31, 2020 was reclassified to deferred liability. There was no impact on the previously reported 2020 current liabilities or total liabilities due to this reclassification. However, the 2020 statement of cash flows for net cash flows from operating activities decreased by \$1,383,000 to \$3,683,000 and net cash flows from non-capital financing activities increased by \$1,383,000 to \$8,269,000 as a result. The reclassifications had 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 balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which was September 26, 2022.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2021, the Hospital implemented the Governmental Accounting Standards Board 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 no longer be included in the historical cost of a capital asset reported in the Hospital's financial statements. This statement was adopted prospectively beginning in 2021 and did not have a significant impact on the financial statements.

3. INVESTMENTS

Investments consist of mutual funds, which are reported at fair value. As of December 31, 2021 and 2020, mutual fund balances were approximately \$11,000 and \$12,000, respectively.

4. 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 statement of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment return in the statements revenues, expenses and changes in net position. The investment return and changes in the values increased net position by approximately \$80,000 and \$222,000 in 2021 and 2020, respectively.

5. 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 (primarily capital assets) and includes beneficial interests in perpetual trusts.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

Assets whose use is limited consist of the following as of December 31, 2021 and 2020:

	2021	2020
Assets whose use is limited		
Internally designated		
Cash	\$ 17	\$ 146
Common stocks	4,926	2,001
Mutual funds	203,326	181,295
Total internally designated	208,269	183,442
Donor restricted		
Cash	1,048,780	1,277,088
U.S. government obligations	303,882	537,041
Mutual funds	1,856,383	1,119,586
Beneficial interests in perpetual trusts	1,337,190	1,257,460
Total donor restricted	4,546,235	4,191,175
Total assets limited as to use	\$ 4,754,504	\$ 4,374,617

6. 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, 2021 and 2020, 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, 2021					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Common stocks	\$ 4,926	\$ 4,926	\$ -0-	\$ -0-	\$ -0-
Mutual funds	2,070,373	2,070,373	-0-	-0-	-0-
U.S. government obligations	303,882	303,882	-0-	-0-	-0-
	\$ 2,379,181	\$ 2,379,181	\$ -0-	\$ -0-	\$ -0-
December 31, 2020					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Common stocks	\$ 2,001	\$ 2,001	\$ -0-	\$ -0-	\$ -0-
Mutual funds	1,313,116	1,313,116	-0-	-0-	-0-
U.S. government obligations	537,041	537,041	-0-	-0-	-0-
	\$ 1,852,158	\$ 1,852,158	\$ -0-	\$ -0-	\$ -0-

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Carrying amount		
Deposits	\$ 25,106,938	\$ 22,247,406
Investments	<u>2,379,181</u>	<u>1,852,158</u>
	<u>\$ 27,486,119</u>	<u>\$ 24,099,564</u>
Included in the balance sheet captions		
Cash	\$ 24,058,141	\$ 20,970,172
Investments	10,664	12,235
Assets whose use is limited		
Internally designated	208,269	183,442
Donor restricted	<u>3,209,045</u>	<u>2,933,715</u>
	<u>\$ 27,486,119</u>	<u>\$ 24,099,564</u>

7. 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.
-

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

- 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, 2021 and 2020:

- *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.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020 are as follows:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 10,664	\$ 10,664	\$ -0-	\$ -0-
Assets whose use is limited				
Common stock	\$ 4,926	\$ 4,926	\$ -0-	\$ -0-
Mutual funds				
Blend fund	885,558	885,558	-0-	-0-
Bond funds	973,901	973,901	-0-	-0-
Real estate	108,907	108,907	-0-	-0-
Other	91,343	91,343	-0-	-0-
Total mutual funds	2,059,709	2,059,709	-0-	-0-
U.S. government obligations	303,882	303,882	-0-	-0-
Beneficial interests in perpetual trusts	1,337,190	-0-	-0-	1,337,190
	3,705,707	\$ 2,368,517	\$ -0-	\$ 1,337,190
Cash	1,048,797			
Total assets whose use is limited	\$ 4,754,504			

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 12,235	\$ 12,235	\$ -0-	\$ -0-
Assets whose use is limited				
Common stock	\$ 2,001	\$ 2,001	\$ -0-	\$ -0-
Mutual funds				
Blend fund	849,354	849,354	-0-	-0-
Real estate	97,889	97,889	-0-	-0-
Other	353,638	353,638	-0-	-0-
Total mutual funds	1,300,881	1,300,881	-0-	-0-
U.S. government obligations	537,041	537,041	-0-	-0-
Beneficial interests in perpetual trusts	1,257,460	-0-	-0-	1,257,460
	3,097,383	<u>\$ 1,839,923</u>	<u>\$ -0-</u>	<u>\$ 1,257,460</u>
Cash	1,277,234			
Total assets whose use is limited		<u>\$ 4,374,617</u>		

The following is a reconciliation of activity for 2021 and 2020 for level 3 assets:

	2021	2020
Balance, beginning of year	\$ 1,257,460	\$ 1,162,188
Realized gain	77,450	92,762
Unrealized gain	36,037	128,892
Purchases	(52,027)	(60,860)
Sales	38,261	49,012
Settlements	(19,991)	(114,534)
Balance, end of year	<u>\$ 1,337,190</u>	<u>\$ 1,257,460</u>

Realized gains of approximately \$78,000 and \$93,000 for 2021 and 2020, respectively, and unrealized gains of \$36,000 and \$129,000 for 2021 and 2020, respectively, are reported in the 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 financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

8. CAPITAL ASSETS

Progressions for capital assets for 2021 and 2020 follow:

	December 31,				December 31,
	2020	Additions	Retirements	Transfers	2021
Land	\$ 188,708	\$ -0-	\$ -0-	\$ -0-	\$ 188,708
Land improvements	486,547	12,835	-0-	50,049	549,431
Buildings and improvements	19,884,461	360,034	-0-	2,652,582	22,897,077
Equipment	21,469,770	1,290,557	(176,760)	623,920	23,207,487
Construction in progress	1,780,799	2,346,839	-0-	(3,326,551)	801,087
Total capital assets	43,810,285	4,010,265	(176,760)	-0-	47,643,790
Accumulated depreciation					
Land improvements	(373,323)	(28,207)	-0-	-0-	(401,530)
Buildings and improvements	(10,393,275)	(577,972)	-0-	-0-	(10,971,247)
Equipment	(15,532,726)	(1,496,957)	133,124	-0-	(16,896,559)
Total accumulated depreciation	(26,299,324)	(2,103,136)	133,124	-0-	(28,269,336)
Capital assets, net	\$ 17,510,961	\$ 1,907,129	\$ (43,636)	\$ -0-	\$ 19,374,454

	December 31,				December 31,
	2019	Additions	Retirements	Transfers	2020
Land	\$ 188,708	\$ -0-	\$ -0-	\$ -0-	\$ 188,708
Land improvements	476,647	9,900	-0-	-0-	486,547
Buildings and improvements	19,459,552	122,574	-0-	302,335	19,884,461
Equipment	20,063,736	991,847	(34,553)	448,740	21,469,770
Construction in progress	508,914	2,022,960	-0-	(751,075)	1,780,799
Total capital assets	40,697,557	3,147,281	(34,553)	-0-	43,810,285
Accumulated depreciation:					
Land improvements	(346,507)	(26,816)	-0-	-0-	(373,323)
Buildings and improvements	(9,862,919)	(530,356)	-0-	-0-	(10,393,275)
Equipment	(14,103,651)	(1,455,197)	26,122	-0-	(15,532,726)
Total accumulated depreciation	(24,313,077)	(2,012,369)	26,122	-0-	(26,299,324)
Capital assets, net	\$ 16,384,480	\$ 1,134,912	\$ (8,431)	\$ -0-	\$ 17,510,961

The estimated costs to complete capital projects at December 31, 2021 were approximately \$1,400,000, which related to the renovation of the intensive care unit.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

9. DEBT

The following is a summary of the Hospital's debt under direct borrowings as of December 31, 2021 and 2020:

	2021	2020
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 \$908,000 and \$1,034,000 as of December 31, 2021 and 2020, respectively.	\$ 1,220,092	\$ 1,336,438
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 \$1,235,000 and \$1,655,000 as of December 31, 2021 and 2020, respectively.	1,167,098	1,599,567
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 \$1,701,000 and \$1,755,000 as of December 31, 2021 and 2020, respectively.	446,148	607,092
Payroll Protection Program Loan	-0-	2,733,700
	2,833,338	6,276,797
Current portion	(682,426)	(3,391,872)
	\$ 2,150,912	\$ 2,884,925

In April 2020, the Hospital received a low interest loan of approximately \$2,734,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP loan was unsecured, with fixed interest at 1% and funds advanced under PPP were subject to forgiveness, if certain criteria were met, with the remaining balance repayable within two years of disbursement. The PPP loan was forgivable to the extent that the Hospital incurred and spent the funds on qualified expenditures, which included payroll, employee health insurance, rent, utilities, and interest costs during the covered period as defined by the PPP guidance. In addition, the Hospital was required to maintain specific employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness.

The Hospital elected to account for the PPP loan as debt and recognize any forgiveness when it was legally forgiven. During 2021, the Hospital was notified by the SBA of full forgiveness of the PPP loan and recognized approximately \$2,734,000 as debt forgiveness in the 2021 statement of revenues, expenses, and changes in net position.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

Progressions for long-term debt under direct borrowings for 2021 and 2020 include the following:

	December 31, 2020	Additional Borrowings	Forgiveness/ Payments	December 31, 2021	Current Portion
Notes payable and PPP loan	\$ 6,276,797	\$ -0-	\$ (3,443,459)	\$ 2,833,338	\$ 682,426
	December 31, 2019	Additional Borrowings	Payments	December 31, 2020	Current Portion
Notes payable and PPP loan	\$ 4,234,702	\$ 2,733,700	\$ (691,605)	\$ 6,276,797	\$ 3,391,872

Aggregate maturities of long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2022	\$ 682,426	\$ 104,751	\$ 787,177
2023	696,165	83,015	779,180
2024	519,132	65,458	584,590
2025	235,601	38,261	273,862
2026	145,621	29,569	175,190
2027-2030	554,393	47,699	602,092
	\$ 2,833,338	\$ 368,753	\$ 3,202,091

The Hospital has a line of credit available with a local financial institution with a maximum amount of \$3,000,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 3.25%. The Hospital had no outstanding balance on the line of credit as of December 31, 2021 and 2020. The line of credit expires in September 2023 and is collateralized by deposit accounts of approximately \$3,000,000 as of December 31, 2021.

10. 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 FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 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 2021 and 2020, the Hospital recognized HAF and HIP Program expenses of approximately \$2,030,000 and \$1,279,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the 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 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 \$657,000 and \$394,000 during 2021 and 2020, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

Other Payors

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

Patient service revenue for 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Patient service revenue		
Inpatient	\$ 8,319,179	\$ 6,336,893
Outpatient	113,270,240	94,186,401
Long-term care	35,215,386	37,357,067
Patient service revenue	<u>156,804,805</u>	<u>137,880,361</u>
Deductions from revenue		
Contractual allowances	(72,098,594)	(58,148,791)
Charity care	(67,793)	(124,766)
Provision for bad debts	(3,045,027)	(3,871,149)
Total deductions from revenue	<u>(75,211,414)</u>	<u>(62,144,706)</u>
Net patient service revenue	<u>\$ 81,593,391</u>	<u>\$ 75,735,655</u>

11. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2022. 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 2021 and 2020 was approximately \$68,000 and \$56,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was \$4,434,000 for 2021 and 2020, respectively. Annual rent expense under these leases will approximate \$4,340,000 for 2022 and 2023.

12. 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.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 \$568,000 and \$453,000 for 2021 and 2020, respectively.

13. 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, 2021 and 2020 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Medicare	37%	34%	44%	43%
Medicaid	20%	20%	25%	24%
Blue Cross	9%	8%	10%	10%
Commercial	15%	20%	15%	16%
Self-pay	19%	18%	6%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

14. 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 \$1,337,000 and \$1,257,000 as of December 31, 2021 and 2020, respectively.

15. 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 \$2,643,000 and \$2,050,000 for 2021 and 2020, 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.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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

	2021	2020
Unpaid claims, beginning of year	\$ 330,653	\$ 319,320
Incurred claims and changes in estimates	2,642,913	2,049,765
Claim payments	(2,623,060)	(2,038,432)
Unpaid claims, end of year	<u>\$ 350,506</u>	<u>\$ 330,653</u>

16. 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 \$1,800,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 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 healthcare 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.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 \$500,000, if not covered under the Act, or aggregate claims exceeding \$15,000,000, 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.

17. CONTINGENCIES

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 financial statements were available to be issued.

During 2021 and 2020, grants under the American Rescue Plan (ARP) and the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to health care providers impacted by the outbreak of the COVID-19 pandemic. Revenues from ARP and CARES grants can be recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. ARP and CARES grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the specific guidance issued by the grantor. The Hospital received ARP and CARES grants of approximately \$1,498,000 and \$7,473,000 during 2021 and 2020, respectively. ARP and CARES funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. During 2021 and 2020, the Hospital recognized \$3,482,000 and \$2,880,000, respectively, of ARP and CARES grants as COVID-19 grant funds recorded in nonoperating revenues within the statements of revenues, expenses and changes in net position. Amounts received in advance of satisfying the conditions of the grants are reported as deferred liabilities on the balance sheets. Deferred liabilities of \$2,609,000 and \$4,593,000 were recorded related to ARP and CARES grants and included in total deferred liability of \$2,723,000 and \$4,639,000 as of December 31, 2021 and 2020, respectively.

RUSH MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

18. UPCOMING ACCOUNTING STANDARDS

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. The Hospital is presently evaluating the impact of this standard on its future financial statements.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rush Memorial Hospital (the Hospital), which comprise the balance sheets as of December 31, 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
September 26, 2022



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE *UNIFORM GUIDANCE***

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Rush Memorial Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance*

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2021 and have issued our report thereon dated September 26, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the *Uniform Guidance*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
September 26, 2022

RUSH MEMORIAL HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2021

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant ID #</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Major program			
U.S. Department of Health and Human Services (DHHS) COVID-19 - Provider Relief Fund	N/A	93.498	\$ 6,926,095
Non-major programs			
DHHS			
COVID-19 Uninsured Program	N/A	93.461	82,620
COVID-19 Testing and Migration for Rural Health Clinics	N/A	93.697	100,000
Total non-major programs			<u>182,620</u>
Total federal expenditures			<u>\$ 7,108,715</u>

See report on schedule of expenditures of federal awards as required by the *Uniform Guidance* on page 31 and notes to schedule of expenditures of federal awards.

RUSH MEMORIAL HOSPITAL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Rush Memorial Hospital (the Hospital) under programs of the federal government for the year ended December 31, 2021 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the *Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

2. SUMMARY OF SIGNIFICANT POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital has elected not to use the 10% de minimis indirect cost rate as allowed under the *Uniform Guidance*.

3. PASS-THROUGH FUNDS TO SUB-RECIPIENTS

During 2021, the Hospital did not pass-through funds to sub-recipients.

4. COVID-19 RELIEF FUNDS

Under terms and conditions of the American Rescue Plan (ARP) and the Coronavirus Aids, Relief, and Economic Security (CARES) Act, the Hospital is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received.

HHS requires amounts received prior to December 31, 2020, and expended through December 31, 2021, to be reported on the 2021 Schedule rather than the 2020 Schedule. As such, the Hospital received approximately \$7,473,000 in COVID-19 grants prior to December 31, 2020 before refunding \$547,000 to HHS during 2021. During 2021 and 2020, the Hospital recognized \$3,482,000 and \$2,880,000 as revenue in its 2021 and 2020 statements of revenues, expenses and changes in net position, respectively, as the terms and conditions of the PRF grant were satisfied. ARP and CARES grants received and also recognized as revenue in 2021 will be reported on the 2022 Schedule as required by HHS.

5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During 2021, the Hospital did not receive donated personal protective equipment from federal sources.

See report on schedule of expenditures of federal awards as required by the *Uniform Guidance* on page 31.

RUSH MEMORIAL HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2021

Section I - Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	_____ <input checked="" type="checkbox"/> none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted?	_____ yes	_____ <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	_____ yes	_____ <input checked="" type="checkbox"/> no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	_____ yes	_____ <input checked="" type="checkbox"/> none reported
Significant deficiency(s) identified that are not considered material weakness(es) noted?	_____ yes	_____ <input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ yes	_____ <input checked="" type="checkbox"/> no
Identification of major program(s):	<u>CFDA #</u>	<u>Name of Federal Program</u>
	93.498	COVID-19 - Provider Relief Fund
Threshold used to distinguish between Type A and B programs:	\$750,000	
Auditee qualified as low-risk auditee?	_____ yes	_____ <input checked="" type="checkbox"/> * no

* To qualify as low risk, an auditee must have completed single audits in the two previous audit periods. A single audit was not required for this auditee in 2020. Therefore, the auditee cannot be considered for low risk determination until 2023 in conjunction with other qualifying criteria.

Section II - Findings Related to Financial Statements Reported in Accordance with Government Auditing Standards:

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards

No matters reported

Section IV - Summary Schedule of Prior Audit Findings

Not applicable