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August 3, 2018

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

We have reviewed the audit report opined on by Blue & Co., LLC Independent Public Accountants, for the period January 1, 2017 to December 31, 2017.

Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Rush Memorial Hospital as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



RUSH MEMORIAL
H o s p i t a l

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

CPAs / ADVISORS



RUSH MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

We have audited the accompanying consolidated financial statements of Rush Memorial Hospital (the Hospital), a component unit of Rush County, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2017, and the results of its operations, 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.

Report on Summarized Comparative Information

We have previously audited the Hospital's 2016 consolidated financial statements, and we expressed unmodified opinions on those audited consolidated financial statements in our report dated August 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Required Supplementary Information

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

Blue & Co., LLC

Indianapolis, Indiana
July 23, 2018

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

This section of Rush Memorial Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2017. This MD&A does include a discussion and analysis of the activities and results of the Hospital's discrete component unit, Rush Memorial Hospital Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$2,784,000 or 13.5% in 2017 compared to \$2,383,000 or 13.1% in 2016.
- The Hospital reported an operating income of approximately \$1,602,000 for 2017, representing a decrease of \$295,000 in comparison to the year 2016 results.
- The Hospital's investment in capital assets increased in 2017 by approximately \$3,575,000. Additions of \$5,405,000 in property and equipment were offset by depreciation expense of \$1,819,000 and disposals of \$1,987,000 in 2017.
- The Hospital's cash and investments in current assets increased approximately \$3,241,000 and patient accounts receivable decreased \$414,000.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately \$32,610,000 and \$18,088,000 in gross patient service revenue during 2017 and 2016, respectively.

USING THIS ANNUAL REPORT

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

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

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

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

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

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

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

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

Table 1: Consolidated Balance Sheet

Current assets increased approximately \$2,110,000 in 2017 mainly due to an increase in investments and other current assets. Assets whose use is limited increased \$1,095,000 in 2017 compared to an increase of \$147,000 in 2016. Net capital assets increased \$3,575,000 compared to a decrease of \$243,000 in 2016 based on the Hospital's capital additions and associated depreciation expense.

Current liabilities increased by approximately \$2,357,000 in 2017 mainly related to increases in accounts payable compared to a decrease of \$2,739,000 in 2016. Long-term debt increased \$1,644,000 in 2017 due to a new note payable for \$3,000,000 offset by current year principal payments. This compares to a decrease in long-term debt of \$1,010,000 in 2016.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

Net position increased approximately \$2,784,000 in 2017 and \$2,383,000 in 2016. The increases in 2017 and 2016 relate to favorable operating income, contributions and investment return.

	2017	2016	2017-2016 Change	2015	2016-2015 Change
Assets					
Current assets	\$ 20,038,413	\$ 17,928,362	\$ 2,110,051	\$ 19,173,161	\$ (1,244,799)
Assets whose use is limited	4,809,026	3,714,434	1,094,592	3,567,520	146,914
Capital assets	16,157,192	12,582,568	3,574,624	12,825,788	(243,220)
Other assets	9,870	3,870	6,000	28,920	(25,050)
Total assets	<u>\$ 41,014,501</u>	<u>\$ 34,229,234</u>	<u>\$ 6,785,267</u>	<u>\$ 35,595,389</u>	<u>\$ (1,366,155)</u>
Liabilities					
Current liabilities	\$ 12,295,018	\$ 9,937,970	\$ 2,357,048	\$ 12,676,736	\$ (2,738,766)
Long-term debt	5,366,512	3,722,644	1,643,868	4,733,106	(1,010,462)
Total liabilities	17,661,530	13,660,614	4,000,916	17,409,842	(3,749,228)
Net position					
Net investment in capital assets	9,731,170	7,896,100	1,835,070	7,328,090	568,010
Restricted	4,651,833	3,570,102	1,081,731	3,427,391	142,711
Unrestricted	8,969,968	9,102,418	(132,450)	7,430,066	1,672,352
Total net position	<u>23,352,971</u>	<u>20,568,620</u>	<u>2,784,351</u>	<u>18,185,547</u>	<u>2,383,073</u>
Total liabilities and net position	<u>\$ 41,014,501</u>	<u>\$ 34,229,234</u>	<u>\$ 6,785,267</u>	<u>\$ 35,595,389</u>	<u>\$ (1,366,155)</u>

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

The Hospital had positive performance in 2017 with a return on equity of 11.9%. This remains comparable to return on equity of 11.6% in 2016 and 12.8% in 2015.

Total revenues increased approximately \$16,068,000 and \$2,349,000 in 2017 and 2016, respectively, as utilization in inpatient and outpatient services increased and an additional long-term care facility was added. Long-term care gross services revenue was \$32,610,000 in 2017 and \$18,088,000 in 2016.

Expenses increased by approximately \$16,363,000 and \$2,799,000 in 2017 and 2016, respectively. The 2017 increase is primarily in purchased services and relates to the new long-term care facility that was added during the year. The 2016 increase related mainly to salaries and benefits, purchased services and medical fees, and medical and other supplies.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

Nonoperating revenue (expense), net increased by approximately \$696,000 and \$511,000 in 2017 and 2016, respectively, primarily due to increases in contributions and investment income. Interest expense was \$207,000 in 2017 compared to \$216,000 from 2016.

	2017	2016	2017-2016 Change	2015	2016-2015 Change
Revenues					
Net patient service revenue	\$ 63,177,628	\$ 45,635,749	\$ 17,541,879	\$ 44,964,463	\$ 671,286
Other operating revenue	1,246,618	2,720,298	(1,473,680)	1,042,716	1,677,582
Total revenue	<u>64,424,246</u>	<u>48,356,047</u>	<u>16,068,199</u>	<u>46,007,179</u>	<u>2,348,868</u>
Expenses					
Salary and benefits	17,348,778	15,868,715	1,480,063	14,916,587	952,128
Purchased services and medical fees	22,382,258	14,343,096	8,039,162	13,689,523	653,573
Medical and other supplies	8,811,477	6,246,444	2,565,033	5,367,471	878,973
Depreciation	1,818,619	1,880,758	(62,139)	1,884,487	(3,729)
Other expenses	12,460,650	8,119,631	4,341,019	7,801,795	317,836
Total operating expenses	<u>62,821,782</u>	<u>46,458,644</u>	<u>16,363,138</u>	<u>43,659,863</u>	<u>2,798,781</u>
Operating income	1,602,464	1,897,403	(294,939)	2,347,316	(449,913)
Non-operating revenue (expense), net	1,181,887	485,670	696,217	(25,067)	510,737
Change in net position	<u>\$ 2,784,351</u>	<u>\$ 2,383,073</u>	<u>\$ 401,278</u>	<u>\$ 2,322,249</u>	<u>\$ 60,824</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2017	2016	2017-2016 Change	2015	2016-2015 Change
Cash flow from activities					
Operating	\$ 5,753,696	\$ 4,649,399	\$ 1,104,297	\$ 4,071,813	\$ 577,586
Noncapital financing	1,150,264	622,782	527,482	320,609	302,173
Capital and related financing	(2,806,981)	(4,582,183)	1,775,202	(3,182,507)	(1,399,676)
Investing	(2,569,688)	(1,804,666)	(765,022)	79,794	(1,884,460)
Change in cash equivalents	<u>\$ 1,527,291</u>	<u>\$ (1,114,668)</u>	<u>\$ 2,641,959</u>	<u>\$ 1,289,709</u>	<u>\$ (2,404,377)</u>

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

Total cash and cash equivalents increased approximately \$1,527,000 in 2017. Operating activities increased cash and cash equivalents by \$5,754,000 during 2017 mainly from an increase in revenues. Noncapital financing provided \$1,150,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$2,807,000 during 2017 mainly from the purchase of capital assets. Investing activities decreased cash and cash equivalents by \$2,570,000 due to investment activity during the year.

Total cash and cash equivalents decreased approximately \$1,115,000 in 2016. Operating activities increased cash and cash equivalents by \$4,649,000 during 2016 mainly from an increase in revenues. Noncapital financing provided \$623,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$4,582,000 during 2016 mainly from the payments on the line of credit. Investing activities decreased cash and cash equivalents by \$1,805,000 due to investment activity during the year.

Total cash and cash equivalents increased by approximately \$1,290,000 in 2015. Operating activities increased cash and cash equivalents by \$4,072,000 during 2015 mainly from an increase in receivables. Noncapital financing provided \$321,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$3,183,000 during 2015 mainly from the purchase of capital assets. Investing activities increased cash and cash equivalents by \$80,000 due to investment activity during the year.

SOURCES OF REVENUE

During 2017, 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% of the Hospital's gross revenues in 2017. Following is a table of major sources of gross patient revenues, including long-term care, for the past three years:

Payor Mix	2017	2016	2015
Medicare	44%	43%	38%
Medicaid	25%	25%	24%
Blue Cross/Anthem	13%	13%	13%
Commercial insurance	11%	13%	20%
Self-pay	7%	6%	5%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

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

CAPITAL ASSETS

During 2017, the Hospital's capital assets increased approximately \$3,575,000 net of asset disposals and depreciation compared to a decrease of \$243,000 in 2016. The change in capital assets is outlined in the following table:

	2017	2016	2017-2016 Change	2015	2016-2015 Change
Land and improvements	\$ 644,675	\$ 609,931	\$ 34,744	\$ 547,058	\$ 62,873
Buildings and improvements	17,421,916	16,745,213	676,703	16,389,098	356,115
Equipment	17,312,377	16,179,296	1,133,081	15,152,252	1,027,044
Construction in progress	1,782,036	209,065	1,572,971	17,559	191,506
Total capital assets	37,161,004	33,743,505	3,417,499	32,105,967	1,637,538
Accumulated depreciation	21,003,812	21,160,937	(157,125)	19,280,179	1,880,758
Capital assets, net	<u>\$ 16,157,192</u>	<u>\$ 12,582,568</u>	<u>\$ 3,574,624</u>	<u>\$ 12,825,788</u>	<u>\$ (243,220)</u>

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

DEBT

Total long-term debt (including current portion) increased from approximately \$4,686,000 to \$6,426,000 in 2017 based on principal payments of \$1,260,000 and additional debt of approximately \$3,000,000. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. 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 cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

	2017			2016	
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
ASSETS					
Current assets					
Cash and cash equivalents	\$ 7,947,805	\$ 37,848	\$ -0-	\$ 7,985,653	\$ 7,421,178
Investments	2,519,905	232,001	-0-	2,751,906	75,666
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$1,982,000 in 2017 and \$1,990,000 in 2016	6,352,651	-0-	-0-	6,352,651	6,766,393
Other current assets	2,946,203	2,000	-0-	2,948,203	3,665,125
Total current assets	19,766,564	271,849	-0-	20,038,413	17,928,362
Assets whose use is limited					
Internally designated	157,193	-0-	-0-	157,193	144,332
Donor restricted	4,181,699	470,134	-0-	4,651,833	3,570,102
Total assets whose use is limited	4,338,892	470,134	-0-	4,809,026	3,714,434
Capital assets					
Land	188,708	-0-	-0-	188,708	188,708
Depreciable capital assets, net	15,967,965	519	-0-	15,968,484	12,393,860
Total capital assets, net	16,156,673	519	-0-	16,157,192	12,582,568
Other assets					
	3,870	6,000	-0-	9,870	3,870
Total assets	<u>\$ 40,265,999</u>	<u>\$ 748,502</u>	<u>\$ -0-</u>	<u>\$ 41,014,501</u>	<u>\$ 34,229,234</u>
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable and accrued expenses	\$ 8,780,837	\$ -0-	\$ -0-	\$ 8,780,837	\$ 7,226,935
Accrued wages and related liabilities	1,654,671	-0-	-0-	1,654,671	1,397,117
Current portion of long-term debt	1,059,510	-0-	-0-	1,059,510	963,824
Estimated third-party settlements	800,000	-0-	-0-	800,000	350,094
Total current liabilities	12,295,018	-0-	-0-	12,295,018	9,937,970
Long term debt, net of current portion	5,366,512	-0-	-0-	5,366,512	3,722,644
Total liabilities	17,661,530	-0-	-0-	17,661,530	13,660,614
Net position					
Net investment in capital assets	9,730,651	519	-0-	9,731,170	7,896,100
Restricted					
Expendable for various purposes upon donors' specific restriction	3,006,150	470,134	-0-	3,476,284	2,476,832
Nonexpendable donor restricted	1,175,549	-0-	-0-	1,175,549	1,093,270
Total restricted net position	4,181,699	470,134	-0-	4,651,833	3,570,102
Unrestricted	8,692,119	277,849	-0-	8,969,968	9,102,418
Total net position	22,604,469	748,502	-0-	23,352,971	20,568,620
Total liabilities and net position	<u>\$ 40,265,999</u>	<u>\$ 748,502</u>	<u>\$ -0-</u>	<u>\$ 41,014,501</u>	<u>\$ 34,229,234</u>

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	2017			2016	
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Revenues					
Net patient service revenue	\$ 63,211,485	\$ -0-	\$ (33,857)	\$ 63,177,628	\$ 45,635,749
Other operating revenue	1,246,618	-0-	-0-	1,246,618	2,720,298
Total revenues	64,458,103	-0-	(33,857)	64,424,246	48,356,047
Expenses					
Salaries and wages	14,273,172	-0-	32,846	14,306,018	13,290,369
Employee benefits	3,042,760	-0-	-0-	3,042,760	2,578,346
Medical professional fees	2,618,623	-0-	-0-	2,618,623	2,834,148
Purchased services	19,763,635	-0-	-0-	19,763,635	11,508,948
Medical supplies and drugs	8,365,192	-0-	-0-	8,365,192	5,763,612
Other supplies	446,285	-0-	-0-	446,285	482,832
Food	216,718	-0-	-0-	216,718	202,363
Facility and equipment leases	3,833,247	-0-	-0-	3,833,247	2,706,902
HAF Program	796,563	-0-	-0-	796,563	428,349
Depreciation	1,817,995	624	-0-	1,818,619	1,880,758
Insurance	1,333,618	-0-	-0-	1,333,618	1,165,565
Repairs and maintenance	888,043	-0-	-0-	888,043	908,004
Utilities	1,522,563	-0-	-0-	1,522,563	803,859
Other expenses	3,869,898	-0-	-0-	3,869,898	1,904,589
Total expenses	62,788,312	624	32,846	62,821,782	46,458,644
Operating income (loss)	1,669,791	(624)	(66,703)	1,602,464	1,897,403
Nonoperating revenues (expenses)					
Investment income	306,919	17,739	-0-	324,658	124,168
Interest expense	(206,705)	-0-	-0-	(206,705)	(216,009)
Contributions	791,374	436,850	(77,960)	1,150,264	622,782
Other nonoperating revenue (expense)	(11,321)	(219,672)	144,663	(86,330)	(45,271)
Nonoperating revenues (expenses), net	880,267	234,917	66,703	1,181,887	485,670
Change in net position	2,550,058	234,293	-0-	2,784,351	2,383,073
Net position					
Beginning of year	20,054,411	514,209	-0-	20,568,620	18,185,547
End of year	\$ 22,604,469	\$ 748,502	\$ -0-	\$ 23,352,971	\$ 20,568,620

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	2017			2016	
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Operating activities					
Cash received from patient services	\$ 63,278,570	\$ -0-	\$ (33,857)	\$ 63,244,713	\$ 46,978,400
Cash paid for salaries, wages and benefits	(17,058,378)	-0-	(32,846)	(17,091,224)	(15,683,468)
Cash paid to vendors and suppliers	(41,638,411)	(8,000)	-0-	(41,646,411)	(29,365,831)
Other receipts, net	1,246,618	-0-	-0-	1,246,618	2,720,298
Net cash flows from operating activities	5,828,399	(8,000)	(66,703)	5,753,696	4,649,399
Noncapital financing activities					
Contributions	791,374	436,850	(77,960)	1,150,264	622,782
Capital and related financing activities					
Proceeds from borrowings on long-term debt	3,000,000	-0-	-0-	3,000,000	-0-
Payments on long-term debt	(1,260,446)	-0-	-0-	(1,260,446)	(811,230)
Interest payments on long-term debt	(206,705)	-0-	-0-	(206,705)	(216,009)
Payments on line of credit	-0-	-0-	-0-	-0-	(2,028,247)
Loss on disposal of capital assets	11,321	-0-	-0-	11,321	-0-
Purchase of capital assets	(4,351,151)	-0-	-0-	(4,351,151)	(1,526,697)
Net cash flows from capital and related financing activities	(2,806,981)	-0-	-0-	(2,806,981)	(4,582,183)
Investing activities					
Investment income	306,919	17,739	-0-	324,658	124,168
Other nonoperating revenue (expense)	(11,321)	(219,672)	144,663	(86,330)	(45,271)
Proceeds from sale of investments	790,324	-0-	-0-	790,324	407,237
Purchases of investments	(3,434,591)	(163,749)	-0-	(3,598,340)	(2,290,800)
Net cash flows from investing activities	(2,348,669)	(365,682)	144,663	(2,569,688)	(1,804,666)
Net change in cash and cash equivalents	1,464,123	63,168	-0-	1,527,291	(1,114,668)
Cash and cash equivalents					
Beginning of year	7,568,924	470,032	-0-	8,038,956	9,153,624
End of year	\$ 9,033,047	\$ 533,200	\$ -0-	\$ 9,566,247	\$ 8,038,956
Reconciliation of cash and cash equivalents to the balance sheets					
In current assets					
Cash and cash equivalents	\$ 7,947,805	\$ 37,848	\$ -0-	\$ 7,985,653	\$ 7,421,178
Investments	-0-	25,218	-0-	25,218	25,130
In assets whose use is limited	1,085,242	470,134	-0-	1,555,376	592,648
Total cash and cash equivalents	\$ 9,033,047	\$ 533,200	\$ -0-	\$ 9,566,247	\$ 8,038,956
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ 1,669,791	\$ (624)	\$ (66,703)	\$ 1,602,464	\$ 1,897,403
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation	1,817,995	624	-0-	1,818,619	1,880,758
Provision for bad debts	3,836,877	-0-	-0-	3,836,877	3,483,108
Changes in operating assets and liabilities					
Patient accounts receivable	(3,423,135)	-0-	-0-	(3,423,135)	(1,287,202)
Other current assets	718,922	(2,000)	-0-	716,922	(329,126)
Other assets	-0-	(6,000)	-0-	(6,000)	25,050
Accounts payable and accrued expenses	500,489	-0-	-0-	500,489	(780,933)
Accrued wages and related liabilities	257,554	-0-	-0-	257,554	185,247
Estimated third-party settlements	449,906	-0-	-0-	449,906	(424,906)
Net cash from operating activities	\$ 5,828,399	\$ (8,000)	\$ (66,703)	\$ 5,753,696	\$ 4,649,399
Noncash capital and noncapital financing activities					
Property included within accounts payable	\$ 1,053,413	\$ -0-	\$ -0-	\$ 1,053,413	\$ 110,841

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its discrete component unit. They do not purport to, and do not, present fairly the financial position of the County as of December 31, 2017, the changes in its financial position or its cash flows for the year then ended.

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

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2016 and for the year ended, from which the summarized information was derived.

Discrete Component Unit

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

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.

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 2019. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Use of Estimates

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

Measurement Focus and Basis of Accounting

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Cash and Cash Equivalents

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

Investments

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

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, 2016 with differences reflected in net patient service revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2017 are reflected in estimated third-party settlements on the consolidated balance sheet. The Hospital recognized an immaterial amount in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

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 2017 and 2016 were approximately \$178,000 and \$322,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately \$75,000 and \$129,000 arose from providing services to charity patients during 2017 and 2016, 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 2017 and 2016.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in the first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. During 2017 and 2016, the Hospital recognized approximately \$126,000 and \$1,678,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other operating revenue in the consolidated statement of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Other Current Assets

Other current assets include inventories which are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method, prepaid expenses and other receivables related to long-term care operations. These assets are classified as current as they are expected to be utilized during the next fiscal year. The following is a summary of other current assets as of December 31:

	<u>2017</u>	<u>2016</u>
Inventories	\$ 945,094	\$ 851,473
Prepaid expenses	446,991	273,642
Other receivables	1,556,118	2,540,010
	<u>\$ 2,948,203</u>	<u>\$ 3,665,125</u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Assets Whose Use is Limited

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

Capital Assets and Depreciation

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

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

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

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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Consolidated Statement of Revenues, Expenses and Changes in Net Position

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

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, 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 Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation has filed its federal and state income tax returns for periods through December 31, 2016. 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, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 \$53,000 and \$66,000 for 2017 and 2016, respectively.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Compensated Absences

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

Reclassifications

Certain amounts from the 2016 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

Litigation

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

Risk Management

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

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is July 23, 2018.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

2. INVESTMENTS

Investments consist of cash and mutual funds, which are reported at fair value. The following represents investments as of December 31, 2017 and 2016:

	2017	2016
Cash	\$ 25,218	\$ 25,130
Certificate of deposit	2,512,114	-0-
Mutual funds	214,574	50,536
	<u>\$ 2,751,906</u>	<u>\$ 75,666</u>

3. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Hospital is the beneficiary under two perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Although the Hospital has no control over the administration or investment of the funds held in these trusts, the estimated fair value of the Hospital's interest in these trusts is recognized as a contribution in the period in which the Hospital receives notice that the trust agreements convey an unconditional right to receive benefits. The Hospital's interest in these perpetual trusts is reported at fair value, which is estimated as the Hospital's portion of the fair market value of the assets in the trusts. Under the terms of the perpetual trusts, the Hospital receives its portion of interest and dividends earned on the corpuses, which is included as unrestricted investment income in the consolidated statement of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment income in the consolidated statements revenues, expenses and changes in net position. The investment income and changes in the values increased net position by approximately \$130,000 and \$52,000 in 2017 and 2016, respectively.

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

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

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Assets whose use is limited consist of the following as of December 31, 2017 and 2016:

	2017	2016
Assets whose use is limited		
Internally designated		
Cash	\$ 78	\$ 144
Common stocks	5,145	5,193
Mutual funds	151,970	138,995
Total internally designated	157,193	144,332
Donor restricted		
Cash	1,555,298	592,504
U.S. government obligations	1,324,868	1,366,520
Mutual funds	596,118	517,808
Beneficial interests in perpetual trusts	1,175,549	1,093,270
Total donor restricted	4,651,833	3,570,102
Total assets limited as to use	\$ 4,809,026	\$ 3,714,434

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the 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, 2017 and 2016, 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:

	December 31, 2017				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Common stocks	\$ 5,145	\$ 5,145	\$ -0-	\$ -0-	\$ -0-
Mutual funds	962,662	962,662	-0-	-0-	-0-
U.S. government obligations	1,324,868	1,324,868	-0-	-0-	-0-
Certificates of deposit	2,512,114	2,512,114	-0-	-0-	-0-
	\$ 4,804,789	\$ 4,804,789	\$ -0-	\$ -0-	\$ -0-

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	December 31, 2016				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Common stocks	\$ 5,193	\$ 5,193	\$ -0-	\$ -0-	\$ -0-
Mutual funds	707,339	707,339	-0-	-0-	-0-
U.S. government obligations	1,366,520	1,366,520	-0-	-0-	-0-
	\$ 2,079,052	\$ 2,079,052	\$ -0-	\$ -0-	\$ -0-

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, 2017 and 2016:

	2017	2016
Carrying amount		
Deposits	\$ 9,566,247	\$ 8,038,956
Investments	4,804,789	2,079,052
	\$ 14,371,036	\$ 10,118,008
Included in the balance sheet captions		
Cash	\$ 7,985,653	\$ 7,421,178
Investments	2,751,906	75,666
Assets whose use is limited		
Internally designated	157,193	144,332
Donor restricted	3,476,284	2,476,832
	\$ 14,371,036	\$ 10,118,008

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

6. FAIR VALUE MEASUREMENTS

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2017 and 2016:

- *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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

- *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, 2017 and 2016 are as follows:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 214,574	<u>\$ 214,574</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash	25,218			
Certificate of deposit *	<u>2,512,114</u>			
Total investments	<u>\$ 2,751,906</u>			
Assets whose use is limited				
Common stock	\$ 5,145	\$ 5,145	\$ -0-	\$ -0-
Mutual funds				
Blend fund	534,444	534,444	-0-	-0-
Real estate	130,940	130,940	-0-	-0-
Other	<u>82,704</u>	<u>82,704</u>	-0-	-0-
Total mutual funds	748,088	748,088	-0-	-0-
U.S. government obligations	1,324,868	1,324,868	-0-	-0-
Beneficial interests in perpetual trusts	<u>1,175,549</u>	-0-	-0-	<u>1,175,549</u>
	3,253,650	<u>\$ 2,078,101</u>	<u>\$ -0-</u>	<u>\$ 1,175,549</u>
Cash	<u>1,555,376</u>			
Total assets whose use is limited	<u>\$ 4,809,026</u>			

* Certificates of deposit are held at contract value.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 50,536	\$ 50,536	\$ -0-	\$ -0-
Cash	25,130			
Total investments	<u>\$ 75,666</u>			
Assets whose use is limited				
Common stock	\$ 5,193	\$ 5,193	\$ -0-	\$ -0-
Mutual funds				
Blend fund	454,573	454,573	-0-	-0-
Real estate	130,423	130,423	-0-	-0-
Other	71,807	71,807	-0-	-0-
Total mutual funds	656,803	656,803	-0-	-0-
U.S. government obligations	1,366,520	1,366,520	-0-	-0-
Beneficial interests in perpetual trusts	1,093,270	-0-	-0-	1,093,270
	3,121,786	<u>\$ 661,996</u>	<u>\$ -0-</u>	<u>\$ 1,093,270</u>
Cash	592,648			
Total assets whose use is limited	<u>\$ 3,714,434</u>			

The following is a reconciliation of activity for 2017 and 2016 for level 3 assets:

	2017	2016
Balance, beginning of year	\$ 1,093,270	\$ 1,100,766
Realized gain	60,683	27,899
Unrealized gain	102,213	24,315
Purchases	(431,349)	(335,733)
Sales	403,377	332,824
Settlements	(52,645)	(56,801)
Balance, end of year	<u>\$ 1,175,549</u>	<u>\$ 1,093,270</u>

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 and 2016.

Realized gains of approximately \$61,000 and \$28,000 for 2017 and 2016, respectively, and unrealized gains of approximately \$102,000 and \$24,000 for 2017 and 2016, respectively, are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment income.

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

7. CAPITAL ASSETS

Progressions for capital assets for 2017 and 2016 follow:

	December 31,				December 31,
	2016	Additions	Retirements	Transfers	2017
Land	\$ 188,708	\$ -0-	\$ -0-	\$ -0-	\$ 188,708
Land improvements	421,223	19,914	-0-	14,830	455,967
Buildings and improvements	16,745,213	47,563	-0-	629,140	17,421,916
Equipment	16,179,296	834,890	(1,987,065)	2,285,256	17,312,377
Construction in progress	209,065	4,502,197	-0-	(2,929,226)	1,782,036
Total capital assets	<u>33,743,505</u>	<u>5,404,564</u>	<u>(1,987,065)</u>	<u>-0-</u>	<u>37,161,004</u>
Accumulated depreciation					
Land improvements	269,140	25,437	-0-	-0-	294,577
Buildings and improvements	8,327,611	500,079	-0-	-0-	8,827,690
Equipment	12,564,186	1,293,103	(1,975,744)	-0-	11,881,545
Total accumulated depreciation	<u>21,160,937</u>	<u>1,818,619</u>	<u>(1,975,744)</u>	<u>-0-</u>	<u>21,003,812</u>
Capital assets, net	<u>\$ 12,582,568</u>	<u>\$ 3,585,945</u>	<u>\$ (11,321)</u>	<u>\$ -0-</u>	<u>\$ 16,157,192</u>
	December 31,				December 31,
	2015	Additions	Retirements	Transfers	2016
Land	\$ 188,708	\$ -0-	\$ -0-	\$ -0-	\$ 188,708
Land improvements	358,350	10,208	-0-	52,665	421,223
Buildings and improvements	16,389,098	174,131	-0-	181,984	16,745,213
Equipment	15,152,252	567,397	-0-	459,647	16,179,296
Construction in progress	17,559	885,802	-0-	(694,296)	209,065
Total capital assets	<u>32,105,967</u>	<u>1,637,538</u>	<u>-0-</u>	<u>-0-</u>	<u>33,743,505</u>
Less accumulated depreciation:					
Land improvements	249,867	19,273	-0-	-0-	269,140
Buildings and improvements	7,822,145	505,466	-0-	-0-	8,327,611
Equipment	11,208,167	1,356,019	-0-	-0-	12,564,186
Total accumulated depreciation	<u>19,280,179</u>	<u>1,880,758</u>	<u>-0-</u>	<u>-0-</u>	<u>21,160,937</u>
Capital assets, net	<u>\$ 12,825,788</u>	<u>\$ (243,220)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 12,582,568</u>

There were no significant outstanding commitments related to capital assets as of December 31, 2017.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

8. DEBT

The following is a summary of the Hospital's debt as of December 31, 2017 and 2016:

	2017	2016
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, secured by property and equipment with a net book value of \$1,413,000 and \$1,539,000 as of December 31, 2017 and 2016, respectively.	\$ 1,655,001	\$ 1,751,890
Note payable to financial institution dated January 13, 2017, monthly principal and interest payments beginning July 2017 of \$38,882 with a fixed rate of 2.40%, with maturity at July 2024, secured by equipment with a net book value of \$2,847,000 as of December 31, 2017.	2,835,584	-0-
Note payable to financial institution dated September 29, 2014, monthly principal and interest payments of \$34,629 at a fixed rate of 2.49% with maturity at September 2019, secured by equipment with a net book value of \$-0- and \$403,000 as of December 31, 2017 and 2016, respectively.	710,663	1,102,893
Construction loan as of December 31, 2014 was converted to a note payable with financial institution on February 8, 2015, with monthly principal and interest payments of \$11,436 at a fixed rate of 4.89%, with maturity at February 2025, secured by building with a net book value of \$1,796,000 and \$1,973,000 as of December 31, 2017 and 2016, respectively.	1,108,355	1,299,818
Other	116,419	531,867
	6,426,022	4,686,468
Less current portion	1,059,510	963,824
	\$ 5,366,512	\$ 3,722,644

Progressions for long-term debt for 2017 and 2016 include the following:

	December 31, 2016	Additional Borrowings	Payments	December 31, 2017	Current Portion
Notes payable	\$ 4,686,468	\$ 3,000,000	\$ (1,260,446)	\$ 6,426,022	\$ 1,059,510
	December 31, 2015	Additional Borrowings	Payments	December 31, 2016	Current Portion
Notes payable	\$ 5,497,698	\$ -0-	\$ (811,230)	\$ 4,686,468	\$ 963,824

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Aggregate maturities of long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 1,059,510	\$ 200,760	\$ 1,260,270
2019	967,926	176,858	1,144,784
2020	627,469	151,530	778,999
2021	647,802	131,197	778,999
2022	668,684	110,316	779,000
2023-2027	2,041,604	252,083	2,293,687
2028-2030	413,027	24,950	437,977
	<u>\$ 6,426,022</u>	<u>\$ 1,047,694</u>	<u>\$ 7,473,716</u>

The Hospital has a line of credit available with a local financial institution with a maximum amount of \$2,500,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 3.75% (4.50% as of December 31, 2017). The line of credit expires in April 2019 and is collateralized by deposit accounts of approximately \$2,196,000 as of December 31, 2017. There was no outstanding balance on the line of credit as of December 31, 2017 and 2016.

9. NET PATIENT SERVICE REVENUE

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

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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(WITH COMPARATIVE TOTALS FOR 2016)

Medicaid and the Hospital Assessment Fee Program

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. Beginning July 1, 2017, 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 2017 and 2016, the Hospital recognized HAF and HIP Program expenses of approximately \$797,000 and \$428,000, 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 \$263,000 and \$788,000 during 2017 and 2016, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

Patient service revenue for 2017 and 2016 consists of the following:

	2017	2016
Patient service revenue		
Inpatient	\$ 6,230,154	\$ 8,496,320
Outpatient	70,943,830	66,374,119
Long-term care	32,610,304	18,088,272
Gross patient service revenue	109,784,288	92,958,711
Deductions from revenue		
Contractual allowances	42,591,779	43,517,956
Charity care	178,004	321,898
Provision for bad debts	3,836,877	3,483,108
Total deductions from revenue	46,606,660	47,322,962
Net patient service revenue	<u>\$ 63,177,628</u>	<u>\$ 45,635,749</u>

10. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2019. 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 2017 and 2016 was approximately \$18,000 and \$17,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$3,815,000 and \$2,690,000 for 2017 and 2016, respectively. Annual rent expense under these leases will approximate \$4,200,000 for 2018 and 2019.

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan, Rush Memorial Hospital Employees' Pension Plan (the Plan), as authorized by Indiana Code 16-22-3-11. The Plan provides retirement, disability and death benefits to Plan 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

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 \$261,000 and \$275,000 for 2017 and 2016, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Rushville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables and gross revenue from patients and third-party payors as of and for the years ended December 31, 2017 and 2016 was as follows:

	Receivables		Revenues	
	2017	2016	2017	2016
Medicare	33%	29%	44%	43%
Medicaid	22%	18%	25%	25%
Blue Cross	15%	9%	13%	13%
Commercial	16%	16%	11%	13%
Self-pay	14%	28%	7%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

13. RESTRICTED NONEXPENDABLE NET POSITION

Restricted nonexpendable net position includes perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Restricted nonexpendable net position was approximately \$1,176,000 and \$1,093,000 as of December 31, 2017 and 2016, respectively.

14. SELF INSURANCE

The Hospital is self-insured for employee health claims. A third-party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$70,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$1,643,000 and \$1,203,000 for 2017 and 2016, 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

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

	2017	2016
Unpaid claims, beginning of year	\$ 190,000	\$ 236,889
Incurred claims and changes in estimates	1,643,069	1,203,157
Claim payments	(1,504,813)	(1,250,046)
Unpaid claims, end of year	<u>\$ 328,256</u>	<u>\$ 190,000</u>

15. RISK MANAGEMENT

Risk Management

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

Medical Malpractice

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

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

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

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

16. RECENTLY ISSUED ACCOUNTING STANDARDS

In June of 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2019. This Statement requires 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.

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

In June of 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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