



RUSH MEMORIAL
H o s p i t a l

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

CPAs / ADVISORS



RUSH MEMORIAL HOSPITAL

TABLE OF CONTENTS
DECEMBER 31, 2018

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



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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, and its discretely presented component unit, Rush Memorial Hospital Foundation, Inc., as of and for the year ended December 31, 2018, and the related notes to the consolidated financial statements, which collectively comprise the Hospital's basic consolidated financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hospital's 2017 consolidated financial statements, and we expressed unmodified opinions on those audited consolidated financial statements in our report dated July 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 22, 2019

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

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

This section of Rush Memorial Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2018. 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 \$569,000 or 2.4% in 2018 compared to \$2,784,000 or 13.5% in 2017.
- The Hospital reported an operating income of approximately \$466,000 for 2018, representing a decrease of \$1,137,000 in comparison to the year 2017 results.
- The Hospital's investment in capital assets increased in 2018 by approximately \$156,000. Additions of \$2,078,000 in property and equipment were offset by depreciation expense of \$1,908,000 and disposals of \$534,000 with accumulated depreciation of \$519,000 in 2018.
- The Hospital's cash and investments in current assets decreased approximately \$3,208,000 and patient accounts receivable increased \$1,485,000.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately \$29,586,000 and \$26,310,000 in gross patient service revenue during 2018 and 2017, 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.

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

RUSH MEMORIAL HOSPITAL

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

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

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

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 decreased approximately \$1,671,000 in 2018 mainly due to a decrease in cash and cash equivalents, investments and other current assets. Assets whose use is limited decreased \$822,000 in 2018 compared to an increase of \$1,095,000 in 2017. Net capital assets increased \$156,000 compared to an increase of \$3,575,000 in 2017 based on the Hospital's capital additions and associated depreciation expense.

Current liabilities decreased by approximately \$1,831,000 in 2018 mainly related to decreases in accounts payable and estimated third-party settlements compared to an increase of \$3,259,000 in 2017. Long-term debt decreased \$1,077,000 in 2018 due to current year principal payments. This compares to an increase in long-term debt of \$1,644,000 in 2017.

Net position increased approximately \$569,000 in 2018 and \$2,784,000 in 2017. The increase in 2018 is related to net investment in capital assets. The increase in 2017 was related to favorable operating income, contributions and investment return.

RUSH MEMORIAL HOSPITAL

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

	2018	2017	2018-2017 Change	2016	2017-2016 Change
Assets					
Current assets	\$ 19,270,079	\$ 20,940,749	\$ (1,670,670)	\$ 17,928,362	\$ 3,012,387
Assets whose use is limited	3,986,754	4,809,026	(822,272)	3,714,434	1,094,592
Capital assets	16,313,316	16,157,192	156,124	12,582,568	3,574,624
Other assets	7,870	9,870	(2,000)	3,870	6,000
Total assets	<u>\$ 39,578,019</u>	<u>\$ 41,916,837</u>	<u>\$ (2,338,818)</u>	<u>\$ 34,229,234</u>	<u>\$ 7,687,603</u>
Liabilities					
Current liabilities	\$ 11,366,485	\$ 13,197,354	\$ (1,830,869)	\$ 9,937,970	\$ 3,259,384
Long-term debt	4,289,792	5,366,512	(1,076,720)	3,722,644	1,643,868
Total liabilities	15,656,277	18,563,866	(2,907,589)	13,660,614	4,903,252
Net position					
Net investment in capital assets	11,067,001	9,731,170	1,335,831	7,896,100	1,835,070
Restricted	3,833,632	4,651,833	(818,201)	3,570,102	1,081,731
Unrestricted	9,021,109	8,969,968	51,141	9,102,418	(132,450)
Total net position	<u>23,921,742</u>	<u>23,352,971</u>	<u>568,771</u>	<u>20,568,620</u>	<u>2,784,351</u>
Total liabilities and net position	<u>\$ 39,578,019</u>	<u>\$ 41,916,837</u>	<u>\$ (2,338,818)</u>	<u>\$ 34,229,234</u>	<u>\$ 7,687,603</u>

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

The Hospital had positive performance in 2018 with a return on equity of 2.4%. This is a decrease compared to return on equity of 13.5% in 2017 and 13.1% in 2016.

Total revenues increased approximately \$5,020,000 in 2018 compared to an increase of approximately \$9,780,000 in 2017. The increase is due to the addition of a long-term care facility in December 2018 and a full year of activity of another facility that was added in 2017. Long-term care gross services revenue was \$29,586,000 in 2018 and \$26,310,000 in 2017.

Expenses increased by approximately \$6,157,000 in 2018 and increased by approximately \$10,075,000 in 2017. The 2018 increase is primarily in purchased services and medical supplies and drugs. The 2017 increase is primarily in purchased services and other expenses and relates to the new long-term care facility that was added during the year.

Nonoperating revenue (expense), net decreased by approximately \$1,079,000 in 2018 and increased by approximately \$696,000 in 2017. The decrease in 2018 is primarily due to a decrease investment return. Interest expense was \$207,000 in 2018 and 2017.

RUSH MEMORIAL HOSPITAL

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

	2018	2017	2018-2017 Change	2016	2017-2016 Change
Revenues					
Net patient service revenue	\$ 62,207,581	\$ 56,889,266	\$ 5,318,315	\$ 45,635,749	\$ 11,253,517
Other operating revenue	948,790	1,246,618	(297,828)	2,720,298	(1,473,680)
Total revenue	<u>63,156,371</u>	<u>58,135,884</u>	<u>5,020,487</u>	<u>48,356,047</u>	<u>9,779,837</u>
Expenses					
Salary and benefits	19,226,720	17,348,778	1,877,942	15,868,715	1,480,063
Purchased services and medical fees	20,050,106	17,288,128	2,761,978	14,343,096	2,945,032
Medical and other supplies	9,273,642	7,906,945	1,366,697	6,246,444	1,660,501
Depreciation	1,907,744	1,818,619	89,125	1,880,758	(62,139)
Other expenses	12,231,964	12,170,950	61,014	8,119,631	4,051,319
Total operating expenses	<u>62,690,176</u>	<u>56,533,420</u>	<u>6,156,756</u>	<u>46,458,644</u>	<u>10,074,776</u>
Operating income	466,195	1,602,464	(1,136,269)	1,897,403	(294,939)
Non-operating revenue (expense), net	<u>102,576</u>	<u>1,181,887</u>	<u>(1,079,311)</u>	<u>485,670</u>	<u>696,217</u>
Change in net position	<u>\$ 568,771</u>	<u>\$ 2,784,351</u>	<u>\$ (2,215,580)</u>	<u>\$ 2,383,073</u>	<u>\$ 401,278</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?"

	2018	2017	2018-2017 Change	2016	2017-2016 Change
Cash flow from activities					
Operating	\$ (1,248,086)	\$ 5,823,006	\$ (7,071,092)	\$ 4,649,399	\$ 1,173,607
Noncapital financing	417,372	1,150,264	(732,892)	622,782	527,482
Capital and related financing	(3,091,976)	(2,806,981)	(284,995)	(4,582,183)	1,775,202
Investing	<u>3,017,356</u>	<u>(2,569,688)</u>	<u>5,587,044</u>	<u>(1,804,666)</u>	<u>(765,022)</u>
Change in cash equivalents	<u>\$ (905,334)</u>	<u>\$ 1,596,601</u>	<u>\$ (2,501,935)</u>	<u>\$ (1,114,668)</u>	<u>\$ 2,711,269</u>

Total cash and cash equivalents decreased approximately \$905,000 in 2018. Operating activities decreased cash and cash equivalents by \$1,249,000 during 2018 mainly from a decrease in revenues. Noncapital financing provided \$417,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by \$3,091,000 during 2018 mainly from the purchase of capital assets and payments on long-term debt. Investing activities increased cash and cash equivalents by \$3,017,000 due to the sale of investments during the year.

RUSH MEMORIAL HOSPITAL

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

Total cash and cash equivalents increased approximately \$1,597,000 in 2017. Operating activities increased cash and cash equivalents by \$5,823,000 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.

SOURCES OF REVENUE

During 2018, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 68% and 69% of the Hospital's gross revenues in 2018 and 2017, respectively. Following is a table of major sources of gross patient revenues, including long-term care, for the past three years:

<u>Payor Mix</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Medicare	43%	44%	43%
Medicaid	25%	25%	25%
Blue Cross/Anthem	12%	13%	13%
Commercial insurance	13%	11%	13%
Self-pay	<u>7%</u>	<u>7%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

RUSH MEMORIAL HOSPITAL

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

CAPITAL ASSETS

The Hospital's capital assets increased approximately \$156,000 and \$3,575,000 net of asset disposals and depreciation in 2018 and 2017, respectively. The change in capital assets is outlined in the following table:

	2018	2017	2018-2017 Change	2016	2017-2016 Change
Land and improvements	\$ 644,675	\$ 644,675	\$ -0-	\$ 609,931	\$ 34,744
Buildings and improvements	19,156,023	17,421,916	1,734,107	16,745,213	676,703
Equipment	18,535,237	17,312,377	1,222,860	16,179,296	1,133,081
Construction in progress	369,961	1,782,036	(1,412,075)	209,065	1,572,971
Total capital assets	38,705,896	37,161,004	1,544,892	33,743,505	3,417,499
Accumulated depreciation	22,392,580	21,003,812	1,388,768	21,160,937	(157,125)
Capital assets, net	<u>\$ 16,313,316</u>	<u>\$ 16,157,192</u>	<u>\$ 156,124</u>	<u>\$ 12,582,568</u>	<u>\$ 3,574,624</u>

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

DEBT

Total long-term debt (including current portion) decreased from approximately \$6,426,000 to \$5,246,000 in 2018 based on principal payments of \$1,180,000. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

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, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017	
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
ASSETS					
Current assets					
Cash and cash equivalents	\$ 7,474,690	\$ 117,482	\$ -0-	\$ 7,592,172	\$ 8,054,963
Investments	7,144	-0-	-0-	7,144	2,751,906
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$2,215,000 in 2018 and \$1,741,000 in 2017	8,670,453	-0-	-0-	8,670,453	7,185,677
Estimated third-party settlements	96,639	-0-	-0-	96,639	-0-
Other current assets	2,901,594	2,077	-0-	2,903,671	2,948,203
Total current assets	19,150,520	119,559	-0-	19,270,079	20,940,749
Assets whose use is limited					
Internally designated	153,122	-0-	-0-	153,122	157,193
Donor restricted	3,295,940	537,692	-0-	3,833,632	4,651,833
Total assets whose use is limited	3,449,062	537,692	-0-	3,986,754	4,809,026
Capital assets					
Land	188,708	-0-	-0-	188,708	188,708
Depreciable capital assets, net	16,124,608	-0-	-0-	16,124,608	15,968,484
Total capital assets, net	16,313,316	-0-	-0-	16,313,316	16,157,192
Other assets					
Total assets	3,870	4,000	-0-	7,870	9,870
Total assets	<u>\$ 38,916,768</u>	<u>\$ 661,251</u>	<u>\$ -0-</u>	<u>\$ 39,578,019</u>	<u>\$ 41,916,837</u>
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable and accrued expenses	\$ 8,732,507	\$ 2,451	\$ -0-	\$ 8,734,958	\$ 9,683,173
Accrued wages and related liabilities	1,599,004	-0-	-0-	1,599,004	1,654,671
Line of credit	76,000	-0-	-0-	76,000	-0-
Current portion of long-term debt	956,523	-0-	-0-	956,523	1,059,510
Estimated third-party settlements	-0-	-0-	-0-	-0-	800,000
Total current liabilities	11,364,034	2,451	-0-	11,366,485	13,197,354
Long term debt, net of current portion					
Total liabilities	4,289,792	-0-	-0-	4,289,792	5,366,512
Total liabilities	15,653,826	2,451	-0-	15,656,277	18,563,866
Net position					
Net investment in capital assets	11,067,001	-0-	-0-	11,067,001	9,731,170
Restricted					
Expendable for various purposes upon donors' specific restriction	2,264,853	537,692	-0-	2,802,545	3,476,284
Nonexpendable donor restricted	1,031,087	-0-	-0-	1,031,087	1,175,549
Total restricted net position	3,295,940	537,692	-0-	3,833,632	4,651,833
Unrestricted	8,900,001	121,108	-0-	9,021,109	8,969,968
Total net position	23,262,942	658,800	-0-	23,921,742	23,352,971
Total liabilities and net position	<u>\$ 38,916,768</u>	<u>\$ 661,251</u>	<u>\$ -0-</u>	<u>\$ 39,578,019</u>	<u>\$ 41,916,837</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, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017	
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Revenues					
Net patient service revenue	\$ 62,224,100	\$ -0-	\$ (16,519)	\$ 62,207,581	\$ 56,889,266
Other operating revenue	948,790	-0-	-0-	948,790	1,246,618
Total revenues	63,172,890	-0-	(16,519)	63,156,371	58,135,884
Expenses					
Salaries and wages	15,636,401	-0-	5,804	15,642,205	14,306,018
Employee benefits	3,584,515	-0-	-0-	3,584,515	3,042,760
Medical professional fees	2,697,208	-0-	-0-	2,697,208	2,618,623
Purchased services	17,352,898	-0-	-0-	17,352,898	14,669,505
Medical supplies and drugs	8,530,346	-0-	-0-	8,530,346	7,460,660
Other supplies	743,296	-0-	-0-	743,296	446,285
Food	197,903	-0-	-0-	197,903	216,718
Facility and equipment leases	4,294,677	-0-	-0-	4,294,677	3,874,497
HAF and HIP Programs	1,180,982	-0-	-0-	1,180,982	796,563
Depreciation	1,907,225	519	-0-	1,907,744	1,818,619
Insurance	1,214,472	-0-	-0-	1,214,472	1,264,922
Repairs and maintenance	920,183	-0-	-0-	920,183	888,043
Utilities	1,110,968	-0-	-0-	1,110,968	1,219,472
Other expenses	3,312,779	-0-	-0-	3,312,779	3,910,735
Total expenses	62,683,853	519	5,804	62,690,176	56,533,420
Operating income (loss)	489,037	(519)	(22,323)	466,195	1,602,464
Nonoperating revenues (expenses)					
Investment return	(10,443)	(9,926)	-0-	(20,369)	324,658
Interest expense	(207,661)	-0-	-0-	(207,661)	(206,705)
Contributions	397,067	276,051	(255,746)	417,372	1,150,264
Other nonoperating revenue (expense)	(9,527)	(355,308)	278,069	(86,766)	(86,330)
Nonoperating revenues (expenses), net	169,436	(89,183)	22,323	102,576	1,181,887
Change in net position	658,473	(89,702)	-0-	568,771	2,784,351
Net position					
Beginning of year	22,604,469	748,502	-0-	23,352,971	20,568,620
End of year	\$ 23,262,942	\$ 658,800	\$ -0-	\$ 23,921,742	\$ 23,352,971

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017	
	Total	Foundation	Eliminations	Total Reporting	Total Reporting
	Hospital			Entity	Entity
Operating activities					
Cash received from patient services	\$ 58,661,703	\$ -0-	\$ (16,519)	\$ 58,645,184	\$ 56,123,325
Cash paid for salaries, wages and benefits	(19,276,583)	-0-	(5,804)	(19,282,387)	(17,091,224)
Cash paid to vendors and suppliers	(41,564,047)	-0-	-0-	(41,564,047)	(34,455,713)
Other receipts, net	948,790	4,374	-0-	953,164	1,246,618
Net cash flows from operating activities	(1,230,137)	4,374	(22,323)	(1,248,086)	5,823,006
Noncapital financing activities					
Contributions	397,067	276,051	(255,746)	417,372	1,150,264
Capital and related financing activities					
Proceeds from borrowings on long-term debt	-0-	-0-	-0-	-0-	3,000,000
Payments on long-term debt	(1,179,707)	-0-	-0-	(1,179,707)	(1,260,446)
Interest payments on long-term debt	(207,661)	-0-	-0-	(207,661)	(206,705)
Proceeds from borrowings on line of credit	76,000	-0-	-0-	76,000	-0-
Loss on disposal of capital assets	9,527	-0-	-0-	9,527	11,321
Proceeds from the sale of capital assets	4,999	-0-	-0-	4,999	-0-
Purchase of capital assets	(1,795,134)	-0-	-0-	(1,795,134)	(4,351,151)
Net cash flows from capital and related financing activities	(3,091,976)	-0-	-0-	(3,091,976)	(2,806,981)
Investing activities					
Investment return	(10,443)	(9,926)	-0-	(20,369)	324,658
Other nonoperating revenue (expense)	(9,527)	(355,308)	278,069	(86,766)	(86,330)
Proceeds from sale of investments	3,241,649	220,532	-0-	3,462,181	790,324
Purchases of investments	(323,941)	(13,749)	-0-	(337,690)	(3,598,340)
Net cash flows from investing activities	2,897,738	(158,451)	278,069	3,017,356	(2,569,688)
Net change in cash and cash equivalents	(1,027,308)	121,974	-0-	(905,334)	1,596,601
Cash and cash equivalents					
Beginning of year	9,102,357	533,200	-0-	9,635,557	8,038,956
End of year	<u>\$ 8,075,049</u>	<u>\$ 655,174</u>	<u>\$ -0-</u>	<u>\$ 8,730,223</u>	<u>\$ 9,635,557</u>
Reconciliation of cash and cash equivalents to the balance sheets					
In current assets					
Cash and cash equivalents	\$ 7,474,690	\$ 117,482	\$ -0-	\$ 7,592,172	\$ 8,054,963
Investments	-0-	-0-	-0-	-0-	25,218
In assets whose use is limited	600,359	537,692	-0-	1,138,051	1,555,376
Total cash and cash equivalents	<u>\$ 8,075,049</u>	<u>\$ 655,174</u>	<u>\$ -0-</u>	<u>\$ 8,730,223</u>	<u>\$ 9,635,557</u>
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ 489,037	\$ (519)	\$ (22,323)	\$ 466,195	\$ 1,602,464
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation	1,907,225	519	-0-	1,907,744	1,818,619
Provision for bad debts	4,428,441	-0-	-0-	4,428,441	3,824,973
Changes in operating assets and liabilities					
Patient accounts receivable	(5,913,217)	-0-	-0-	(5,913,217)	(4,244,257)
Other current assets	44,609	(77)	-0-	44,532	716,922
Other assets	-0-	2,000	-0-	2,000	(6,000)
Accounts payable and accrued expenses	(1,233,926)	2,451	-0-	(1,231,475)	1,402,825
Accrued wages and related liabilities	(55,667)	-0-	-0-	(55,667)	257,554
Estimated third-party settlements	(896,639)	-0-	-0-	(896,639)	449,906
Net cash from operating activities	<u>\$ (1,230,137)</u>	<u>\$ 4,374</u>	<u>\$ (22,323)</u>	<u>\$ (1,248,086)</u>	<u>\$ 5,823,006</u>
Noncash capital and noncapital financing activities					
Property included within accounts payable	\$ 283,260	\$ -0-	\$ -0-	\$ 283,260	\$ 1,053,413

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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, 2018, 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 and for the year ended December 31, 2017, from which the summarized information was derived.

Discrete Component Unit

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

Long-Term Care Operations

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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

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

Use of Estimates

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

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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 and 2018 are reflected in estimated third-party settlements on the consolidated balance sheet. The Hospital recognized an immaterial amount in net patient service revenue in the consolidated statement of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2018 and 2017 were approximately \$127,000 and \$178,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately \$55,000 and \$75,000 arose from providing services to charity patients during 2018 and 2017, 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 2018 and 2017.

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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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

	2018	2017
Inventories	\$ 1,059,632	\$ 945,094
Prepaid expenses	472,346	446,991
Other receivables	1,371,693	1,556,118
	<u>\$ 2,903,671</u>	<u>\$ 2,948,203</u>

Assets Whose Use is Limited

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

Capital Assets and Depreciation

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

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

<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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

not meet the definition of invested in capital assets net of related debt or restricted. The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

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

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, 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, 2017. 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, 2018 and 2017, 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 \$52,000 and \$53,000 for 2018 and 2017, respectively.

Compensated Absences

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Reclassifications

Certain amounts from the 2017 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. The following is a summary of reclassifications related to long-term care services:

	2017		
	Originally Reported	Reclass	Currently Reported
Consolidated balance sheet			
Cash and cash equivalents	\$ 7,985,653	\$ 69,310	\$ 8,054,963
Patient accounts receivable	\$ 6,352,651	\$ 833,026	\$ 7,185,677
Total assets	\$ 41,014,501	\$ 902,336	\$ 41,916,837
Accounts payable and accrued expenses	\$ 8,780,837	\$ 902,336	\$ 9,683,173
Total liabilities	\$ 17,661,530	\$ 902,336	\$ 18,563,866
Consolidated statement of revenues, expenses and changes in net position			
Total revenues	\$ 64,424,246	\$ (6,288,362)	\$ 58,135,884
Total expenses	\$ 62,821,782	\$ (6,288,362)	\$ 56,533,420

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 22, 2019.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

2. INVESTMENTS

Investments consist of cash and mutual funds, which are reported at fair value. The following represents investments as of December 31, 2018 and 2017:

	2018	2017
Cash	\$ -0-	\$ 25,218
Certificate of deposit	-0-	2,512,114
Mutual funds	7,144	214,574
	<u>\$ 7,144</u>	<u>\$ 2,751,906</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 return in the consolidated statement of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment return in the consolidated statements revenues, expenses and changes in net position. The investment return and changes in the values decreased net position by approximately \$62,000 in 2018 and increased net position by \$163,000 in 2017.

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, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

Assets whose use is limited consist of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets whose use is limited		
Internally designated		
Cash	\$ 144	\$ 78
Common stocks	4,302	5,145
Mutual funds	<u>148,676</u>	<u>151,970</u>
Total internally designated	153,122	157,193
Donor restricted		
Cash	1,137,907	1,555,298
U.S. government obligations	1,040,722	1,324,868
Mutual funds	623,916	596,118
Beneficial interests in perpetual trusts	<u>1,031,087</u>	<u>1,175,549</u>
Total donor restricted	<u>3,833,632</u>	<u>4,651,833</u>
Total assets limited as to use	<u>\$ 3,986,754</u>	<u>\$ 4,809,026</u>

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2018 and 2017, 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, 2018				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Common stocks	\$ 4,302	\$ 4,302	\$ -0-	\$ -0-	\$ -0-
Mutual funds	779,735	779,735	-0-	-0-	-0-
U.S. government obligations	1,040,723	1,040,723	-0-	-0-	-0-
	<u>\$ 1,824,760</u>	<u>\$ 1,824,760</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	December 31, 2017				
	Carrying Amount	Investment Maturities (in years)			More than 10
		Less than 1	1-5	6-10	
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-
	<u>\$ 4,804,789</u>	<u>\$ 4,804,789</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

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

Deposits and investments consist of the following as of December 31, 2018 and 2017:

	2018	2017
Carrying amount		
Deposits	\$ 8,730,223	\$ 9,635,557
Investments	<u>1,824,760</u>	<u>4,804,789</u>
	<u>\$ 10,554,983</u>	<u>\$ 14,440,346</u>
Included in the balance sheet captions		
Cash	\$ 7,592,172	\$ 8,054,963
Investments	7,144	2,751,906
Assets whose use is limited		
Internally designated	153,122	157,193
Donor restricted	<u>2,802,545</u>	<u>3,476,284</u>
	<u>\$ 10,554,983</u>	<u>\$ 14,440,346</u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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, 2018 and 2017:

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 7,144	\$ 7,144	\$ -0-	\$ -0-
Assets whose use is limited				
Common stock	\$ 4,302	\$ 4,302	\$ -0-	\$ -0-
Mutual funds				
Blend fund	499,637	499,637	-0-	-0-
Real estate	120,795	120,795	-0-	-0-
Other	152,159	152,159	-0-	-0-
Total mutual funds	772,591	772,591	-0-	-0-
U.S. government obligations	1,040,722	1,040,722	-0-	-0-
Beneficial interests in perpetual trusts	1,031,084	-0-	-0-	1,031,084
	2,848,699	<u>\$ 1,817,615</u>	<u>\$ -0-</u>	<u>\$ 1,031,084</u>
Cash	1,138,055			
Total assets whose use is limited	<u>\$ 3,986,754</u>			
	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			
Certificates of deposit at contract value	2,512,114			
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	82,704	82,704	-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	1,175,549	-0-	-0-	1,175,549
	3,253,650	<u>\$ 2,078,101</u>	<u>\$ -0-</u>	<u>\$ 1,175,549</u>
Cash	1,555,376			
Total assets whose use is limited	<u>\$ 4,809,026</u>			

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

The following is a reconciliation of activity for 2018 and 2017 for level 3 assets:

	2018	2017
Balance, beginning of year	\$ 1,175,549	\$ 1,093,270
Realized gain	65,700	60,683
Unrealized (loss)/gain	(127,313)	102,213
Purchases	(245,306)	(431,349)
Sales	261,164	403,377
Settlements	(98,710)	(52,645)
Balance, end of year	\$ 1,031,084	\$ 1,175,549

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2018 and 2017.

Realized gains of approximately \$66,000 and \$61,000 for 2018 and 2017, respectively, and unrealized losses of approximately \$127,000 for 2018 and unrealized gains of approximately \$102,000 for 2017, are reported in the consolidated statement of revenues, expenses and changes in net position as a component of investment return.

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

7. CAPITAL ASSETS

Progressions for capital assets for 2018 and 2017 follow:

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	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>
Less 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>

There were no significant outstanding commitments related to capital assets as of December 31, 2018.

8. DEBT

The following is a summary of the Hospital's debt as of December 31, 2018 and 2017:

	2018	2017
Note payable series 2005A to financial institution dated July 7, 2005, monthly principal and interest payments of \$14,600 with a fixed rate of 4.523%, with maturity at June 2030, collateralized by property and equipment with a net book value of \$1,287,000 and \$1,413,000 as of December 31, 2018 and 2017, respectively.	\$ 1,553,575	\$ 1,655,001
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 \$3,278,000 and \$2,847,000 as of December 31, 2018 and 2017, respectively.	2,433,013	2,835,584
Note payable to financial institution dated September 29, 2014, monthly principal and interest payments of \$34,629 at a fixed rate of 2.49% with maturity at September 2019, collateralized by equipment with a net book value of \$300,000 and \$710,000 as of December 31, 2018 and 2017, respectively.	308,416	710,663
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 \$1,863,000 and \$1,920,000 as of December 31, 2018 and 2017, respectively.	907,795	1,108,355
Other	43,516	116,419
	<u>5,246,315</u>	<u>6,426,022</u>
Less current portion	<u>956,523</u>	<u>1,059,510</u>
	<u>\$ 4,289,792</u>	<u>\$ 5,366,512</u>

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

Progressions for long-term debt for 2018 and 2017 include the following:

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

Aggregate maturities of long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2019	\$ 956,523	\$ 164,140	\$ 1,120,663
2020	632,517	146,483	779,000
2021	653,102	125,897	778,999
2022	674,249	104,751	779,000
2023	696,165	83,015	779,180
2024-2028	1,388,129	156,037	1,544,166
2029-2030	245,630	9,290	254,920
	\$ 5,246,315	\$ 789,613	\$ 6,035,928

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% (5.50% as of December 31, 2018). The Hospital had \$76,000 and \$-0- outstanding on the line of credit as of December 31, 2018 and 2017, respectively. The line of credit expires in April 2020 and is collateralized by deposit accounts of approximately \$3,562,000 as of December 31, 2018.

9. NET PATIENT SERVICE REVENUE

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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. 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 2018 and 2017, the Hospital recognized HAF and HIP Program expenses of approximately \$1,181,000 and \$797,000, 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 \$788,000 and \$263,000 during 2018 and 2017, 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.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Patient service revenue for 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Patient service revenue		
Inpatient	\$ 5,769,535	\$ 6,230,154
Outpatient	75,789,837	70,943,830
Long-term care	<u>29,585,539</u>	<u>26,310,038</u>
Gross patient service revenue	111,144,911	103,484,022
Deductions from revenue		
Contractual allowances	44,381,642	42,591,779
Charity care	127,247	178,004
Provision for bad debts	<u>4,428,441</u>	<u>3,824,973</u>
Total deductions from revenue	<u>48,937,330</u>	<u>46,594,756</u>
Net patient service revenue	<u>\$ 62,207,581</u>	<u>\$ 56,889,266</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 2018 and 2017 was approximately \$23,000 and \$18,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$4,271,000 and \$3,856,000 for 2018 and 2017, respectively. Annual rent expense under these leases will approximate \$4,236,000 for 2019 and 2020.

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.

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 \$357,000 and \$261,000 for 2018 and 2017, respectively.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

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, 2018 and 2017 was as follows:

	Receivables		Revenues	
	2018	2017	2018	2017
Medicare	29%	33%	43%	44%
Medicaid	32%	22%	25%	25%
Blue Cross	7%	15%	12%	13%
Commercial	14%	16%	13%	11%
Self-pay	18%	14%	7%	7%
	100%	100%	100%	100%

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 \$1,031,000 and \$1,176,000 as of December 31, 2018 and 2017, respectively.

14. SELF INSURANCE

The Hospital is self-insured for employee health claims. A third-party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$80,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$2,002,000 and \$1,643,000 for 2018 and 2017, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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

	2018	2017
Unpaid claims, beginning of year	\$ 328,256	\$ 190,000
Incurred claims and changes in estimates	2,002,384	1,643,069
Claim payments	(2,130,640)	(1,504,813)
Unpaid claims, end of year	\$ 200,000	\$ 328,256

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

15. RISK MANAGEMENT

Risk Management

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

Medical Malpractice

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

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

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

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

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

16. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 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 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 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.