



RUSH MEMORIAL
H o s p i t a l

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

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, and its discretely presented component unit, Rush Memorial Hospital Foundation, Inc., which comprise the consolidated balance sheet as of December 31, 2020, 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 an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts; and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. 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 opinions, 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, 2020, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hospital's 2019 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated July 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2021 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
July 26, 2021

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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 2020. This MD&A does include a discussion and analysis of the activities and results of the Hospital's discrete component unit, Rush Memorial Hospital Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately \$4,372,000 or 15.5% in 2020 compared to \$4,301,000 or 18.0% in 2019.
- The Hospital reported an operating income of approximately \$776,000 for 2020, representing a decrease of \$3,063,000 in comparison to the year 2019 results.
- The Hospital's investment in capital assets increased in 2020 by approximately \$1,126,000. Additions of \$3,147,000 in property and equipment were offset by depreciation expense of \$2,012,000 with accumulated depreciation of \$26,229,000 as of December 31, 2020.
- The Hospital's cash and investments in current assets increased approximately \$10,812,000 and patient accounts receivable increased \$1,066,000.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately \$37,357,000 and \$36,262,000 in patient service revenue during 2020 and 2019, respectively.

USING THIS ANNUAL REPORT

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

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

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

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

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 DECEMBER 31, 2020
 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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

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

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

Table 1: Consolidated Balance Sheet

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Assets					
Current assets	\$ 36,800,117	\$ 22,164,787	\$ 14,635,330	\$ 19,270,079	\$ 2,894,708
Assets whose use is limited	4,374,617	4,293,273	81,344	3,986,754	306,519
Capital assets	17,510,961	16,384,480	1,126,481	16,313,316	71,164
Other assets	3,870	5,870	(2,000)	7,870	(2,000)
Total assets	<u>\$ 58,689,565</u>	<u>\$ 42,848,410</u>	<u>\$ 15,841,155</u>	<u>\$ 39,578,019</u>	<u>\$ 3,270,391</u>
Liabilities					
Current liabilities	\$ 23,209,603	\$ 11,024,872	\$ 12,184,731	\$ 11,366,485	\$ (341,613)
Long-term debt	2,884,925	3,600,538	(715,613)	4,289,792	(689,254)
Total liabilities	26,094,528	14,625,410	11,469,118	15,656,277	(1,030,867)
Net position					
Net investment in capital assets	11,234,164	12,149,778	(915,614)	11,067,001	1,082,777
Restricted	4,191,175	4,122,130	69,045	3,833,632	288,498
Unrestricted	17,169,698	11,951,092	5,218,606	9,021,109	2,929,983
Total net position	<u>32,595,037</u>	<u>28,223,000</u>	<u>4,372,037</u>	<u>23,921,742</u>	<u>4,301,258</u>
Total liabilities and net position	<u>\$ 58,689,565</u>	<u>\$ 42,848,410</u>	<u>\$ 15,841,155</u>	<u>\$ 39,578,019</u>	<u>\$ 3,270,391</u>

Current assets increased approximately \$14,635,000 in 2020 mainly due to an increase in cash and cash equivalents. Assets whose use is limited increased \$81,000 in 2020 and \$307,000 in 2019. Net capital assets increased \$1,126,000 compared to an increase of \$71,000 in 2019 based on the Hospital's capital additions and associated depreciation expense.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

Current liabilities increased by approximately \$12,185,000 in 2020 mainly related to increases in accounts payable, Paycheck Payroll Program loan and refundable advance compared to a decrease of \$342,000 in 2019. Long-term debt decreased \$716,000 in 2020 due to current year principal payments. This compares to a decrease in long-term debt of \$689,000 in 2019.

Net position increased approximately \$4,372,000 in 2020 and \$4,301,000 in 2019. The increase in 2020 and 2019 is related to current assets.

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

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Revenues					
Net patient service revenue	\$ 75,735,655	\$ 75,097,684	\$ 637,971	\$ 62,207,581	\$ 12,890,103
Other operating revenue	543,871	624,904	(81,033)	948,790	(323,886)
Total revenue	76,279,526	75,722,588	556,938	63,156,371	12,566,217
Expenses					
Salary and benefits	21,522,056	20,771,302	750,754	19,226,720	1,544,582
Purchased services and medical fees	26,833,760	24,458,778	2,374,982	20,050,106	4,408,672
Medical and other supplies	11,242,570	10,203,537	1,039,033	9,273,642	929,895
Depreciation	2,012,369	1,934,321	78,048	1,907,744	26,577
Other expenses	13,892,618	14,515,081	(622,463)	12,231,964	2,283,117
Total operating expenses	75,503,373	71,883,019	3,620,354	62,690,176	9,192,843
Operating income	776,153	3,839,569	(3,063,416)	466,195	3,373,374
Non-operating revenue (expense), net	3,595,884	461,689	3,134,195	102,576	359,113
Change in net position	<u>\$ 4,372,037</u>	<u>\$ 4,301,258</u>	<u>\$ 70,779</u>	<u>\$ 568,771</u>	<u>\$ 3,732,487</u>

The Hospital had positive performance in 2020 with a return on equity of 15.5% compared to return on equity of 18.0% in 2019 and 2.4% in 2018.

Total revenues increased approximately \$557,000 in 2020 compared to an increase of approximately \$12,566,000 in 2019. The 2020 operations were impacted by the Coronavirus (COVID-19) pandemic. Long-term care revenue was \$37,357,000 in 2020 and \$36,262,000 in 2019.

Expenses increased by approximately \$3,620,000 and \$9,193,000 in 2020 and 2019, respectively. The 2020 and 2019 increase is primarily in purchased services and medical supplies.

Nonoperating revenue (expense), net increased by approximately \$3,134,000 and \$359,000 in 2020 and 2019, respectively. The increase in 2020 is primarily due to COVID-19 grants from the Provider Relief Fund, and the increase in 2019 is primarily due to investment return and contributions. Interest expense was \$142,000 in 2020 and \$193,000 in 2019.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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?"

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Cash flow from activities					
Operating	\$ 5,065,283	\$ 5,252,816	\$ (187,533)	\$ (1,248,086)	\$ 6,500,902
Noncapital financing	6,885,832	264,734	6,621,098	417,372	(152,638)
Capital and related financing	(1,166,159)	(3,030,094)	1,863,935	(3,091,976)	61,882
Investing	6,948	237,823	(230,875)	3,017,356	(2,779,533)
Change in cash equivalents	<u>\$ 10,791,904</u>	<u>\$ 2,725,279</u>	<u>\$ 8,066,625</u>	<u>\$ (905,334)</u>	<u>\$ 3,630,613</u>

Total cash and cash equivalents increased approximately \$10,792,000 in 2020. Operating activities increased cash and cash equivalents by \$5,065,000 during 2020 mainly from an increase in revenues. Noncapital financing provided \$6,886,000 of cash and cash equivalents primarily due to COVID-19 grant funds. Capital and related financing decreased cash and cash equivalents by \$1,166,000 during 2020 mainly from the purchase of capital assets, payments on long-term debt, and interest payments on long-term debt. Investing activities increased cash and cash equivalents by \$7,000 due to investment return and proceeds from sale of investments during the year.

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

SOURCES OF REVENUE

During 2020, 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 67% and 68% of the Hospital's gross revenues in 2020 and 2019, respectively.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

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

Payor Mix	2020	2019	2018
Medicare	43%	43%	43%
Medicaid	24%	25%	25%
Blue Cross/Anthem	10%	10%	12%
Commercial insurance	16%	14%	13%
Self-pay	7%	8%	7%
Total	100%	100%	100%

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

CAPITAL ASSETS

The Hospital's capital assets increased approximately \$1,126,000 and \$71,000 net of asset disposals and depreciation in 2020 and 2019, respectively. The change in capital assets is outlined in the following table:

	2020	2019	2020-2019 Change	2018	2019-2018 Change
Land and improvements	\$ 675,255	\$ 665,355	\$ 9,900	\$ 644,675	\$ 20,680
Buildings and improvements	19,884,461	19,459,552	424,909	19,156,023	303,529
Equipment	21,469,770	20,063,736	1,406,034	18,535,237	1,528,499
Construction in progress	1,780,799	508,914	1,271,885	369,961	138,953
Total capital assets	43,810,285	40,697,557	3,112,728	38,705,896	1,991,661
Accumulated depreciation	(26,299,324)	(24,313,077)	(1,986,247)	(22,392,580)	(1,920,497)
Capital assets, net	<u>\$ 17,510,961</u>	<u>\$ 16,384,480</u>	<u>\$ 1,126,481</u>	<u>\$ 16,313,316</u>	<u>\$ 71,164</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.

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019 AND 2018)

DEBT

Total long-term debt (including current portion) increased from approximately \$4,235,000 to \$6,277,000 in 2020 based on additional proceeds from borrowing on long-term debt under the Paycheck Protection Program from the Small Business Administration. More detailed information about the Hospital's long-term debt is presented in the notes to the consolidated financial statements.

ECONOMIC OUTLOOK

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

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
ASSETS				
Current assets				
Cash and cash equivalents	\$ 20,815,411	\$ 154,761	\$ 20,970,172	\$ 10,161,868
Investments	12,235	-0-	12,235	8,336
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$2,337,000 in 2020 and \$2,418,000 in 2019	9,893,349	-0-	9,893,349	8,827,623
Other current assets	5,924,361	-0-	5,924,361	3,166,960
Total current assets	36,645,356	154,761	36,800,117	22,164,787
Assets whose use is limited				
Internally designated	183,442	-0-	183,442	171,143
Donor restricted	3,547,692	643,483	4,191,175	4,122,130
Total assets whose use is limited	3,731,134	643,483	4,374,617	4,293,273
Capital assets				
Land	188,708	-0-	188,708	188,708
Depreciable capital assets, net	17,322,253	-0-	17,322,253	16,195,772
Total capital assets, net	17,510,961	-0-	17,510,961	16,384,480
Other assets				
	3,870	-0-	3,870	5,870
Total assets	<u>\$ 57,891,321</u>	<u>\$ 798,244</u>	<u>\$ 58,689,565</u>	<u>\$ 42,848,410</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable and accrued expenses	\$ 13,760,111	\$ -0-	\$ 13,760,111	\$ 8,121,934
Accrued wages and related liabilities	2,061,243	-0-	2,061,243	1,693,774
Current portion of long-term debt	3,391,872	-0-	3,391,872	634,164
Estimated third-party settlements	740,242	-0-	740,242	575,000
Refundable advances	3,256,135	-0-	3,256,135	-0-
Total current liabilities	23,209,603	-0-	23,209,603	11,024,872
Long term debt, net of current portion				
	2,884,925	-0-	2,884,925	3,600,538
Total liabilities	26,094,528	-0-	26,094,528	14,625,410
Net position				
Net investment in capital assets	11,234,164	-0-	11,234,164	12,149,778
Restricted				
Expendable for various purposes upon donors' specific restriction	2,290,232	643,483	2,933,715	2,959,942
Nonexpendable donor restricted	1,257,460	-0-	1,257,460	1,162,188
Total restricted net position	3,547,692	643,483	4,191,175	4,122,130
Unrestricted	17,014,937	154,761	17,169,698	11,951,092
Total net position	31,796,793	798,244	32,595,037	28,223,000
Total liabilities and net position	<u>\$ 57,891,321</u>	<u>\$ 798,244</u>	<u>\$ 58,689,565</u>	<u>\$ 42,848,410</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, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
Revenues				
Net patient service revenue	\$ 75,735,655	\$ -0-	\$ 75,735,655	\$ 75,097,684
Other operating revenue	543,871	-0-	543,871	624,904
Total revenues	76,279,526	-0-	76,279,526	75,722,588
Expenses				
Salaries and wages	17,643,537	-0-	17,643,537	16,434,265
Employee benefits	3,878,519	-0-	3,878,519	4,337,037
Medical professional fees	2,526,467	-0-	2,526,467	2,661,441
Purchased services	24,307,293	-0-	24,307,293	21,797,337
Medical supplies and drugs	10,620,424	-0-	10,620,424	9,581,121
Other supplies	622,146	-0-	622,146	622,416
Food	92,183	-0-	92,183	147,950
Facility and equipment leases	4,391,839	-0-	4,391,839	4,360,175
HAF and HIP Programs	1,279,092	-0-	1,279,092	1,500,150
Depreciation	2,012,369	-0-	2,012,369	1,934,321
Insurance	1,971,997	-0-	1,971,997	1,997,257
Repairs and maintenance	1,031,987	-0-	1,031,987	1,034,219
Utilities	1,176,532	-0-	1,176,532	1,268,547
Other expenses	3,948,988	-0-	3,948,988	4,206,783
Total expenses	75,503,373	-0-	75,503,373	71,883,019
Operating income	776,153	-0-	776,153	3,839,569
Nonoperating revenues (expenses)				
Investment return	348,504	5,063	353,567	535,299
Interest expense	(142,404)	-0-	(142,404)	(192,996)
Contributions	472,594	276,875	749,469	264,734
COVID-19 grant funds	2,880,228	-0-	2,880,228	-0-
Other nonoperating revenue (expense)	12,051	(257,027)	(244,976)	(145,348)
Nonoperating revenues (expenses), net	3,570,973	24,911	3,595,884	461,689
Change in net position	4,347,126	24,911	4,372,037	4,301,258
Net position				
Beginning of year	27,449,667	773,333	28,223,000	23,921,742
End of year	<u>\$ 31,796,793</u>	<u>\$ 798,244</u>	<u>\$ 32,595,037</u>	<u>\$ 28,223,000</u>

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Total Hospital	Foundation	Total Reporting Entity	Total Reporting Entity
Operating activities				
Cash received from patient services	\$ 73,556,079	\$ -0-	\$ 73,556,079	\$ 74,112,003
Cash paid for salaries, wages and benefits	(21,154,587)	-0-	(21,154,587)	(20,676,532)
Cash paid to vendors and suppliers	(47,884,080)	4,000	(47,880,080)	(48,807,559)
Other receipts, net	543,871	-0-	543,871	624,904
Net cash flows from operating activities	5,061,283	4,000	5,065,283	5,252,816
Noncapital financing activities				
Contributions	472,594	276,875	749,469	264,734
COVID-19 grant funds	6,136,363	-0-	6,136,363	-0-
Net cash flows from non-capital financing activities	6,608,957	276,875	6,885,832	264,734
Capital and related financing activities				
Proceeds from borrowings on long-term debt	2,733,700	-0-	2,733,700	-0-
Payments on long-term debt	(691,605)	-0-	(691,605)	(1,011,613)
Interest payments on long-term debt	(142,404)	-0-	(142,404)	(192,996)
Payments on line of credit	-0-	-0-	-0-	(76,000)
Loss on disposal of capital assets	(12,051)	-0-	(12,051)	-0-
Proceeds from the sale of capital assets	20,482	-0-	20,482	-0-
Purchase of capital assets	(3,074,281)	-0-	(3,074,281)	(1,749,485)
Net cash flows from capital and related financing activities	(1,166,159)	-0-	(1,166,159)	(3,030,094)
Investing activities				
Investment return	348,504	5,063	353,567	535,299
Other nonoperating revenue (expense)	12,051	(257,027)	(244,976)	(145,348)
Proceeds from sale of investments	538,601	-0-	538,601	696,614
Purchases of investments	(640,244)	-0-	(640,244)	(848,742)
Net cash flows from investing activities	258,912	(251,964)	6,948	237,823
Net change in cash and cash equivalents	10,762,993	28,911	10,791,904	2,725,279
Cash and cash equivalents				
Beginning of year	10,686,169	769,333	11,455,502	8,730,223
End of year	<u>\$ 21,449,162</u>	<u>\$ 798,244</u>	<u>\$ 22,247,406</u>	<u>\$ 11,455,502</u>
Reconciliation of cash and cash equivalents to the balance sheets				
In current assets				
Cash and cash equivalents	\$ 20,815,411	\$ 154,761	\$ 20,970,172	\$ 10,161,868
In assets whose use is limited	633,751	643,483	1,277,234	1,293,634
Total cash and cash equivalents	<u>\$ 21,449,162</u>	<u>\$ 798,244</u>	<u>\$ 22,247,406</u>	<u>\$ 11,455,502</u>
Reconciliation of operating income to net cash from operating activities				
Operating income	\$ 776,153	\$ -0-	\$ 776,153	\$ 3,839,569
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation	2,012,369	-0-	2,012,369	1,934,321
Provision for bad debts	(3,871,149)	-0-	(3,871,149)	(4,503,963)
Changes in operating assets and liabilities				
Patient accounts receivable	2,805,423	-0-	2,805,423	4,346,793
Other current assets	(2,759,401)	2,000	(2,757,401)	(263,289)
Other assets	-0-	2,000	2,000	2,000
Accounts payable and accrued expenses	5,565,177	-0-	5,565,177	(869,024)
Accrued wages and related liabilities	367,469	-0-	367,469	94,770
Estimated third-party settlements	165,242	-0-	165,242	671,639
Net cash from operating activities	<u>\$ 5,061,283</u>	<u>\$ 4,000</u>	<u>\$ 5,065,283</u>	<u>\$ 5,252,816</u>
Noncash capital and noncapital financing activities				
Property included within accounts payable	\$ 73,000	\$ -0-	\$ 73,000	\$ 256,000

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2020, the changes in its financial position or its cash flows for the year then ended.

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

The consolidated financial statements include certain prior year summarized comparative information in total but not by component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of and for the year ended December 31, 2019, 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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2018 with differences reflected in net patient service revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2020 and 2019 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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 2020 and 2019 were approximately \$125,000 and \$124,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately \$49,000 and \$50,000 arose from providing services to charity patients during 2020 and 2019, 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 2020 and 2019.

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>2020</u>	<u>2019</u>
Inventories	\$ 1,291,380	\$ 1,010,522
Prepaid expenses	590,483	527,964
Other receivables	<u>4,042,498</u>	<u>1,628,474</u>
	<u>\$ 5,924,361</u>	<u>\$ 3,166,960</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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

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.

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 healthcare services which is the Hospital's principal activity. Contributions and investment return are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, excluding interest costs.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Federal or State Income Taxes

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

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Form 990. The Foundation has filed its federal and state income tax returns for periods through December 31, 2019. 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, 2020 and 2019, 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 \$56,000 and \$50,000 for 2020 and 2019, respectively.

Compensated Absences

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

Reclassifications

Certain summarized amounts from the 2019 total column 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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Litigation

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

Risk Management

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

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which was July 26, 2021.

2. CHANGES IN ACCOUNTING PRINCIPLES

During 2020, the Hospital adopted the following:

- Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*. This statement addressed accounting and financial reporting issues related to asset retirement obligations. This statement also provides guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. There was no impact to these consolidated financial statements as a result of adoption of this statement.
- GASB Statement No. 84 – *Fiduciary Activities*. Generally, this statement requires governmental entities, who control assets of a fiduciary activity in which a fiduciary relationship exists with beneficiaries, to include those activities in two separate, interrelated financial statements, the statement of fiduciary net position and the statement of changes in fiduciary net position. The Hospital's fiduciary activities relate to its pension plan but do not meet the financial accountability and financial burden criteria for fiduciary activities to be included as component units under this statement. As such, there was no impact to these financial statements as a result of adoption of this statement.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement addressed accounting and financial reporting issues related to debt, including direct borrowings and direct placements. This statement also provides guidance for which liabilities should be included when disclosing information related to debt. As a result of the implementation, disclosures related to the direct borrowings are identified in Note 9. There was no other impact to these financial statement disclosures as a result of adoption of this statement as these disclosures have been provided historically.
- GASB Statement No. 90, *Majority Equity Interests*. This statement addressed accounting and financial reporting issues related to a majority equity interest in a legally separate organization and certain component units. Generally, this statement requires governmental entities, who have a majority equity interest that meets the definition of an investment, to measure the investment using the equity method. There was no impact to these financial statements as a result of adoption of this statement.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement, which was adopted early, addressed the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit. There was no impact to these consolidated financial statements as a result of adoption of this statement.

3. INVESTMENTS

Investments consist of mutual funds, which are reported at fair value. As of December 31, 2020 and 2019, mutual fund balances were approximately \$12,000 and \$8,000, respectively.

4. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Hospital is the beneficiary under two perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Although the Hospital has no control over the administration or investment of the funds held in these trusts, the estimated fair value of the Hospital's interest in these trusts is recognized as a contribution in the period in which the Hospital receives notice that the trust agreements convey an unconditional right to receive benefits. The Hospital's interest in these perpetual trusts is reported at fair value, which is estimated as the Hospital's portion of the fair market value of the assets in the trusts. Under the terms of the perpetual trusts, the Hospital receives its portion of interest and dividends earned on the corpuses, which is included as unrestricted investment return in the consolidated statement of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment return in the consolidated statements revenues, expenses and changes in net position. The investment return and changes in the values increased net position by approximately \$222,000 and \$250,000 in 2020 and 2019, respectively.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

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

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

Assets whose use is limited consist of the following as of December 31, 2020 and 2019:

	2020	2019
Assets whose use is limited		
Internally designated		
Cash	\$ 146	\$ 144
Common stocks	2,001	4,074
Mutual funds	181,295	166,925
Total internally designated	183,442	171,143
Donor restricted		
Cash	1,277,088	1,293,490
U.S. government obligations	537,041	854,851
Mutual funds	1,119,586	811,601
Beneficial interests in perpetual trusts	1,257,460	1,162,188
Total donor restricted	4,191,175	4,122,130
Total assets limited as to use	\$ 4,374,617	\$ 4,293,273

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2020 and 2019, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These amounts are included in investments and assets whose use is limited.

December 31, 2020					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Common stocks	\$ 2,001	\$ 2,001	\$ -0-	\$ -0-	\$ -0-
Mutual funds	1,313,116	1,313,116	-0-	-0-	-0-
U.S. government obligations	537,041	537,041	-0-	-0-	-0-
	\$ 1,852,158	\$ 1,852,158	\$ -0-	\$ -0-	\$ -0-
December 31, 2019					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
Common stocks	\$ 4,074	\$ 4,074	\$ -0-	\$ -0-	\$ -0-
Mutual funds	986,862	986,862	-0-	-0-	-0-
U.S. government obligations	854,851	854,851	-0-	-0-	-0-
	\$ 1,845,787	\$ 1,845,787	\$ -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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Deposits and investments consist of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Carrying amount		
Deposits	\$ 22,247,406	\$ 11,455,502
Investments	<u>1,852,158</u>	<u>1,845,787</u>
	<u>\$ 24,099,564</u>	<u>\$ 13,301,289</u>
Included in the balance sheet captions		
Cash	\$ 20,970,172	\$ 10,161,868
Investments	12,235	8,336
Assets whose use is limited		
Internally designated	183,442	171,143
Donor restricted	<u>2,933,715</u>	<u>2,959,942</u>
	<u>\$ 24,099,564</u>	<u>\$ 13,301,289</u>

7. FAIR VALUE MEASUREMENTS

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

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

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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, 2020 and 2019:

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 are as follows:

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	\$ 8,336	\$ 8,336	\$ -0-	\$ -0-
Assets whose use is limited				
Common stock	\$ 4,074	\$ 4,074	\$ -0-	\$ -0-
Mutual funds				
Blend fund	759,753	759,753	-0-	-0-
Real estate	123,183	123,183	-0-	-0-
Other	95,590	95,590	-0-	-0-
Total mutual funds	978,526	978,526	-0-	-0-
U.S. government obligations	854,851	854,851	-0-	-0-
Beneficial interests in perpetual trusts	1,162,188	-0-	-0-	1,162,188
	2,999,639	\$ 1,837,451	\$ -0-	\$ 1,162,188
Cash	1,293,634			
Total assets whose use is limited	\$ 4,293,273			

The following is a reconciliation of activity for 2020 and 2019 for level 3 assets:

	2020	2019
Balance, beginning of year	\$ 1,162,188	\$ 1,031,087
Realized gain	92,762	92,054
Unrealized gain	128,892	157,759
Purchases	(60,860)	(623,269)
Sales	49,012	662,269
Settlements	(114,534)	(157,712)
Balance, end of year	\$ 1,257,460	\$ 1,162,188

Realized gains of approximately \$93,000 and \$92,000 for 2020 and 2019, respectively, and unrealized gains of \$129,000 and \$158,000 for 2020 and 2019, respectively, 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.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

8. CAPITAL ASSETS

Progressions for capital assets for 2020 and 2019 follow:

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

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

There were no significant outstanding commitments related to capital assets as of December 31, 2020.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

9. DEBT

The following is a summary of the Hospital's debt under direct borrowings as of December 31, 2020 and 2019:

	2020	2019
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 \$1,034,000 and \$1,160,000 as of December 31, 2020 and 2019, respectively.	\$ 1,336,438	\$ 1,447,398
Note payable to financial institution dated January 13, 2017, monthly principal and interest payments of \$38,882 with a fixed rate of 2.40%, with maturity at July 2024, collateralized by equipment with a net book value of \$1,655,000 and \$2,075,000 as of December 31, 2020 and 2019, respectively.	1,599,567	2,022,340
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 \$1,755,000 and \$1,809,000 as of December 31, 2020 and 2019, respectively.	607,092	764,964
Payroll Protection Program Loan	2,733,700	-0-
	6,276,797	4,234,702
Current portion	(3,391,872)	(634,164)
	\$ 2,884,925	\$ 3,600,538

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

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Progressions for long-term debt under direct borrowings for 2020 and 2019 include the following:

	December 31, 2019	Additional Borrowings	Payments	December 31, 2020	Current Portion
Notes payable and PPP loan	\$ 4,234,702	\$ 2,733,700	\$ (691,605)	\$ 6,276,797	\$ 3,391,872

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

Though legally forgiven by the SBA during 2021, the entire balance of the PPP loan is classified as current debt as of December 31, 2020. Aggregate maturities of long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2021	\$ 3,391,872	\$ 153,234	\$ 3,545,106
2022	674,249	104,751	779,000
2023	696,165	83,015	779,180
2024	517,144	65,458	582,602
2025	296,845	38,261	335,106
2026-2030	700,522	77,268	777,790
	\$ 6,276,797	\$ 521,987	\$ 6,798,784

The Hospital has a line of credit available with a local financial institution with a maximum amount of \$3,000,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 3.25%. The Hospital had \$-0- outstanding on the line of credit as of December 31, 2020 and 2019, respectively. The line of credit expires in September 2021 and is collateralized by deposit accounts of approximately \$3,423,000 as of December 31, 2020.

10. NET PATIENT SERVICE REVENUE

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Medicare

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

Medicaid and the Hospital Assessment Fee and Healthy Indiana Plan Programs

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

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP program mirror the Medicaid payments under the HAF program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2020 and 2019, the Hospital recognized HAF and HIP Program expenses of approximately \$1,279,000 and \$1,500,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the consolidated statement of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the consolidated statement of revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$394,000 and \$788,000 during 2020 and 2019, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

Other Payors

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

Patient service revenue for 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Patient service revenue		
Inpatient	\$ 6,336,893	\$ 6,190,364
Outpatient	94,182,134	89,024,398
Long-term care	<u>37,357,067</u>	<u>36,262,414</u>
Patient service revenue	137,876,094	131,477,176
Deductions from revenue		
Contractual allowances	(58,148,791)	(51,751,917)
Charity care	(124,766)	(123,612)
Provision for bad debts	<u>(3,871,149)</u>	<u>(4,503,963)</u>
Total deductions from revenue	<u>(62,144,706)</u>	<u>(56,379,492)</u>
Net patient service revenue	<u>\$ 75,731,388</u>	<u>\$ 75,097,684</u>

11. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2021. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2020 and 2019 was approximately \$56,000 and \$24,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$4,336,000 for 2020 and 2019, respectively. Annual rent expense under these leases will approximate \$4,340,000 for 2021 and 2022.

12. PENSION PLAN

Plan Description

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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 \$453,000 and \$422,000 for 2020 and 2019, respectively.

13. CONCENTRATION OF CREDIT RISK

The Hospital is located in Rushville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables and gross revenue from patients and third-party payors as of and for the years ended December 31, 2020 and 2019 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Medicare	34%	31%	43%	43%
Medicaid	20%	27%	24%	25%
Blue Cross	8%	7%	10%	10%
Commercial	20%	16%	16%	14%
Self-pay	18%	19%	7%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

14. RESTRICTED NONEXPENDABLE NET POSITION

Restricted nonexpendable net position includes perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Restricted nonexpendable net position was approximately \$1,257,000 and \$1,162,000 as of December 31, 2020 and 2019, respectively.

15. SELF INSURANCE

The Hospital is self-insured for employee health claims. A third-party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$80,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$2,050,000 and \$2,640,000 for 2020 and 2019, 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

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

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

	2020	2019
Unpaid claims, beginning of year	\$ 319,320	\$ 200,000
Incurred claims and changes in estimates	2,049,765	2,639,930
Claim payments	<u>(2,038,432)</u>	<u>(2,520,610)</u>
Unpaid claims, end of year	<u>\$ 330,653</u>	<u>\$ 319,320</u>

16. RISK MANAGEMENT

Risk Management

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

Medical Malpractice

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence and \$15,000,000 in the annual aggregate. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

The Hospital has commercial insurance for malpractice (in addition to coverage under the Act) under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$500,000, if not covered under the Act, or aggregate claims exceeding \$15,000,000, if not covered under the Act, for claims asserted in the policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

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

17. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Statement No. 95 postpones the effective date of Statement No. 87 by 18 months. Statement No. 87 will be effective for periods beginning after December 15, 2022.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 95 postpones the effective date of Statement No. 89 by one year. Statement No. 89 will be effective for periods beginning after December 15, 2021.

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

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

18. CONTINGENCIES

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

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$6,136,000 of these funds from the CARES Act. PRF amounts are recognized to the extent the Hospital meets the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues. The Hospital recognized PRF of approximately \$2,880,000 as COVID-19 grant funds in nonoperating revenue (expenses) in the consolidated statement of revenues, expenses and changes in net position for 2020. The Hospital deferred \$3,256,000 of PRF, which is included in refundable advances in the consolidated balance sheet. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the Hospital's financial position.



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

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Rush Memorial Hospital (the Hospital), which comprise the consolidated balance sheets as of December 31, 2020, 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, and have issued our report thereon dated July 26, 2021.

Internal Control Over Financial Reporting

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

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

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

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Compliance and Other Matters

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

Purpose of this Report

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

Blue & Co., LLC

Indianapolis, Indiana
July 26, 2021