RUSH MEMORIAL
Hospital

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

CPAs / ADVISORS

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RUSH MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Rush Memorial Hospital
Rushville, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rush Memorial Hospital (the Hospital) which comprise the consolidated balance sheet as of December 31, 2015, 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 and the Guidelines for Audits of County and City Hospitals by 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2015, and the results of its operations, changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hospital's 2014 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated July 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 25, 2016

REQUIRED SUPPLEMENTARY INFORMATION

RUSH MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

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, 2015. This MD&A does include a discussion and analysis of the activities and results of the Hospital's discrete component unit, Rush Memorial Hospital Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net position increased approximately $2,322,000 or 15% in 2015 compared to approximately $1,603,000 or 11% in 2014.

- The Hospital reported an operating income of approximately $2,388,000 for 2015, representing an increase of approximately $1,974,000 in comparison to the year 2014 results.

- The Hospital's investment in facilities and equipment decreased in 2015 by approximately $1,074,000. Additions of approximately $811,000 in property and equipment were offset by depreciation expense of approximately $1,885,000 in 2015.

- The Hospital's current assets for cash and investments increased approximately $1,230,000 and patient accounts receivable increased approximately $460,000 as a result of increases to revenues.

- The Hospital has agreements to lease the operations of multiple long-term care facilities. Long-term care services generated approximately $17,707,000 and $17,267,000 in gross patient service revenue during 2015 and 2014, 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.

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

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

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

Table 1: Consolidated Balance Sheet

Current assets increased approximately $2,150,000 in 2015 mainly due to an increase in cash, patient accounts receivable and other current assets. Assets whose use is limited decreased approximately $70,000 in 2015 compared to an increase of approximately $481,000 in 2014. Net capital assets decreased approximately $1,074,000 compared to an increase of approximately $2,647,000 in 2014 based on the Hospital's capital additions and associated depreciation expense.

Current liabilities decreased by approximately $511,000 in 2015 and approximately $65,000 in 2014 mainly related to the payments towards the line of credit. Long-term debt decreased approximately $805,000 in 2015 due to principal payments and increased approximately $2,840,000 in 2014 due to issuance of new debt for the purchase and renovation of real property and equipment.

Net position increased approximately $2,322,000 in 2015 and approximately $1,603,000 in 2014. The increases in 2015 and 2014 relate to favorable operating income, contributions and investment return.

Total assets in 2014 increased approximately $4,378,000 compared to 2013. The increase was primarily in current assets and capital assets. Total liabilities increased approximately $2,775,000 between 2013 and 2014 mainly due to issuance of new debt for the purchase and renovation of real property and equipment. Net position increased $1,603,000 between 2013 and 2014 based on overall operations.

	2015	2014	2015-2014 Change	2013	2014-2013 Change
Assets					
Current assets	$ 19,173,161	$ 17,023,269	$ 2,149,892	$ 15,773,206	$ 1,250,063
Assets whose use is limited	3,567,520	3,637,504	(69,984)	3,156,715	480,789
Capital assets	12,825,788	13,899,434	(1,073,646)	11,252,698	2,646,736
Other assets	28,920	28,920	-0-	28,903	17
Total assets	$ 35,595,389	$ 34,589,127	$ 1,006,262	$ 30,211,522	$ 4,377,605
Liabilities					
Current liabilities	$ 12,676,736	$ 13,187,410	$ (510,674)	$ 13,252,841	$ (65,431)
Long-term debt	4,733,106	5,538,419	(805,313)	2,698,137	2,840,282
Total liabilities	17,409,842	18,725,829	(1,315,987)	15,950,978	2,774,851
Net position					
Net investment in capital assets	7,328,090	7,580,877	(252,787)	7,961,270	(380,393)
Restricted	3,427,391	3,491,833	(64,442)	2,838,516	653,317
Unrestricted	7,430,066	4,790,588	2,639,478	3,460,758	1,329,830
Total net position	18,185,547	15,863,298	2,322,249	14,260,544	1,602,754
Total liabilities and net position	$ 35,595,389	$ 34,589,127	$ 1,006,262	$ 30,211,522	$ 4,377,605

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

The Hospital had positive performance in 2015 with a return on equity of 12.8%. This remains comparable to return on equity of 10.1% in 2014 and 11.7% in 2013.

Total revenues increased approximately $3,128,000 and $5,852,000 in 2015 and 2014, respectively, as utilization in inpatient and outpatient services increased. Long-term care gross services revenue was approximately $17,707,000 in 2015 and $17,267,000 in 2014.

Expenses increased by approximately $1,154,000 and $5,250,000 in 2015 and 2014, respectively, as purchased services and medical fees and medical and other supplies comprised the majority of the current year increase. The 2014 increase related mainly to salaries and wages and purchased services and medical fees.

Nonoperating revenue (expense), net decreased by approximately $1,255,000 in 2015 and approximately $661,000 in 2014 mainly due to decreases in contributions and investment income. Interest expense was approximately $296,000 in 2015 compared to approximately $275,000 from 2014.

	2015	2014	2015-2014 Change	2013	2014-2013 Change
Revenues					
Net patient service revenue	$ 44,962,615	$ 41,894,801	$ 3,067,814	$ 36,172,011	$ 5,722,790
Other operating revenue	1,083,330	1,023,056	60,274	893,799	129,257
Total revenue	46,045,945	42,917,857	3,128,088	37,065,810	5,852,047
Expenses					
Salary and benefits	14,916,587	15,405,765	(489,178)	13,727,803	1,677,962
Purchased services and medical fees	13,613,668	13,030,380	583,288	10,963,666	2,066,714
Medical and other supplies	5,367,471	4,666,477	700,994	3,699,812	966,665
Depreciation	1,884,487	1,433,527	450,960	1,208,261	225,266
Other expenses	7,875,802	7,967,805	(92,003)	7,654,255	313,550
Total operating expenses	43,658,015	42,503,954	1,154,061	37,253,797	5,250,157
Operating income (loss)	2,387,930	413,903	1,974,027	(187,987)	601,890
Non-operating revenue (expense), net	(65,681)	1,188,851	(1,254,532)	1,849,989	(661,138)
Change in net position	$ 2,322,249	$ 1,602,754	$ 719,495	$ 1,662,002	$ (59,248)

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?"

	2015	2014	2015-2014 Change	2013	2014-2013 Change
Cash flow from activities					
Operating	$ 4,112,427	$ (900,582)	$ 5,013,009	$ 3,336,312	$ (4,236,894)
Noncapital financing	279,995	1,408,884	(1,128,889)	2,027,116	(618,232)
Capital and related financing	(3,182,507)	(1,365,979)	(1,816,528)	(161,729)	(1,204,250)
Investing	79,794	80,327	(533)	348,111	(267,784)
Change in cash equivalents	$ 1,289,709	$ (777,350)	$ 2,067,059	$ 5,549,810	$ (6,327,160)

Total cash and cash equivalents increased approximately $1,290,000 in 2015. Operating activities increased cash and cash equivalents by approximately $4,112,000 during 2015 mainly from an increase in revenues. Noncapital financing provided approximately $280,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by approximately $3,183,000 during 2015 mainly from the payments on the line of credit. Investing activities increased cash and cash equivalents by approximately $80,000 due to investment activity during the year.

Total cash and cash equivalents decreased approximately $777,000 in 2014. Operating activities decreased cash and cash equivalents by approximately $901,000 during 2014 mainly from an increase in receivables. Noncapital financing provided approximately $1,409,000 of cash and cash equivalents due to contributions. Capital and related financing decreased cash and cash equivalents by approximately $1,366,000 during 2014 mainly from the purchase of capital assets. Investing activities increased cash and cash equivalents by approximately $80,000 due to investment activity during the year.

Total cash and cash equivalents increased by approximately $5,550,000 in 2013. Operating activities generated cash and cash equivalents of $3,336,000 during 2013 mainly from operations. Noncapital financing provided approximately $2,027,000 of cash and cash equivalents. Capital and related financing decreased cash and cash equivalents by approximately $162,000 during 2013 mainly as the result of debt service payments. Investing activities increased cash and cash equivalents by approximately $348,000 due to investment activity during the year.

SOURCES OF REVENUE

During 2015, 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 62% of the Hospital's gross revenues in 2015. Following is a table of major sources of gross patient revenues, including long-term care, for the past three years:

Payor Mix	2015	2014	2013
Medicare	38%	40%	42%
Medicaid	24%	25%	24%
Blue Cross/Anthem	13%	15%	13%
Commercial insurance	20%	12%	12%
Self-pay	5%	8%	9%
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

During 2015, the Hospital's capital assets decreased approximately $1,074,000 net of asset disposals and depreciation compared to an increase of approximately $2,647,000 in 2014. The change in capital assets is outlined in the following table:

	2015	2014	2015-2014 Change	2013	2014-2013 Change
Land and improvements	$ 547,058	$ 514,714	$ 32,344	$ 507,141	$ 7,573
Buildings and improvements	16,389,098	16,074,116	314,982	13,994,177	2,079,939
Equipment	15,152,252	14,757,495	394,757	12,161,246	2,596,249
Construction in progress	17,559	957	16,602	950,871	(949,914)
Total capital assets	32,105,967	31,347,282	758,685	27,613,435	3,733,847
Accumulated depreciation	19,280,179	17,447,848	1,832,331	16,360,737	1,087,111
Capital assets, net	$ 12,825,788	$ 13,899,434	$ (1,073,646)	$ 11,252,698	$ 2,646,736

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 $6,319,000 to $5,498,000 in 2015 based on principal payments of approximately $821,000. 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, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015				2014
ASSETS	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Current assets					
Cash and cash equivalents	$ 6,784,833	$ 1,643	$ -0-	$ 6,786,476	$ 5,554,581
Investments	6,384	82,003	-0-	88,387	90,116
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $1,687,000 in 2015 and $1,644,000 in 2014	8,962,299	-0-	-0-	8,962,299	8,502,077
Other current assets	3,334,599	1,400	-0-	3,335,999	2,876,495
Total current assets	19,088,115	85,046	-0-	19,173,161	17,023,269
Assets whose use is limited					
Internally designated	140,129	-0-	-0-	140,129	145,671
Donor restricted	3,116,598	310,793	-0-	3,427,391	3,491,833
Total assets whose use is limited	3,256,727	310,793	-0-	3,567,520	3,637,504
Capital assets					
Land	188,708	-0-	-0-	188,708	188,708
Depreciable capital assets, net	12,635,314	1,766	-0-	12,637,080	13,710,726
Total capital assets, net	12,824,022	1,766	-0-	12,825,788	13,899,434
Other assets	28,920	-0-	-0-	28,920	28,920
Total assets	$ 35,197,784	$ 397,605	$ -0-	$ 35,595,389	$ 34,589,127
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable and accrued expenses	$ 7,897,027	$ -0-	$ -0-	$ 7,897,027	$ 6,977,644
Accrued wages and related liabilities	1,211,870	-0-	-0-	1,211,870	1,489,661
Lines of credit	2,028,247	-0-	-0-	2,028,247	3,283,111
Current portion of long-term debt	764,592	-0-	-0-	764,592	780,138
Estimated third-party settlements	775,000	-0-	-0-	775,000	656,856
Total current liabilities	12,676,736	-0-	-0-	12,676,736	13,187,410
Long term debt, net of current portion	4,733,106	-0-	-0-	4,733,106	5,538,419
Total liabilities	17,409,842	-0-	-0-	17,409,842	18,725,829
Net position					
Net investment in capital assets	7,326,324	1,766	-0-	7,328,090	7,580,877
Restricted					
Expendable for various purposes upon donors' specific restriction	2,015,832	310,793	-0-	2,326,625	2,295,293
Nonexpendable donor restricted	1,100,766	-0-	-0-	1,100,766	1,196,540
Total restricted net position	3,116,598	310,793	-0-	3,427,391	3,491,833
Unrestricted	7,345,020	85,046	-0-	7,430,066	4,790,588
Total net position	17,787,942	397,605	-0-	18,185,547	15,863,298
Total liabilities and net position	$ 35,197,784	$ 397,605	$ -0-	$ 35,595,389	$ 34,589,127

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015				2014
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Revenues					
Net patient service revenue	$ 44,993,111	$ -0-	$ (30,496)	$ 44,962,615	$ 41,894,801
Other operating revenue	1,083,330	-0-	-0-	1,083,330	1,023,056
Total revenues	46,076,441	-0-	(30,496)	46,045,945	42,917,857
Expenses					
Salaries and wages	12,140,235	-0-	28,828	12,169,063	12,701,194
Employee benefits	2,747,524	-0-	-0-	2,747,524	2,704,571
Medical professional fees	2,735,553	-0-	-0-	2,735,553	2,605,943
Purchased services	10,878,115	-0-	-0-	10,878,115	10,424,437
Medical supplies and drugs	4,955,130	-0-	-0-	4,955,130	4,224,985
Other supplies	412,341	-0-	-0-	412,341	441,492
Food	185,500	-0-	-0-	185,500	203,287
Facility and equipment leases	2,703,281	-0-	-0-	2,703,281	2,705,941
HAF Program	296,157	-0-	-0-	296,157	608,624
Depreciation	1,880,606	3,881	-0-	1,884,487	1,433,527
Insurance	1,080,648	-0-	-0-	1,080,648	1,027,865
Repairs and maintenance	818,153	-0-	-0-	818,153	624,570
Utilities	834,597	-0-	-0-	834,597	902,243
Other expenses	1,957,466	-0-	-0-	1,957,466	1,895,275
Total expenses	43,625,306	3,881	28,828	43,658,015	42,503,954
Operating income (loss)	2,451,135	(3,881)	(59,324)	2,387,930	413,903
Nonoperating revenues (expenses)					
Investment income (loss)	36,200	(746)	-0-	35,454	115,167
Interest expense	(296,028)	-0-	-0-	(296,028)	(275,103)
Contributions	310,434	281,896	(312,335)	279,995	1,408,884
Other nonoperating revenue (expense)	-0-	(456,761)	371,659	(85,102)	(60,097)
Nonoperating revenues (expenses), net	50,606	(175,611)	59,324	(65,681)	1,188,851
Change in net position	2,501,741	(179,492)	-0-	2,322,249	1,602,754
Net position					
Beginning of year	15,286,201	577,097	-0-	15,863,298	14,260,544
End of year	$ 17,787,942	$ 397,605	$ -0-	$ 18,185,547	$ 15,863,298

See accompanying notes to consolidated financial statements.

RUSH MEMORIAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015				2014
	Total Hospital	Foundation	Eliminations	Total Reporting Entity	Total Reporting Entity
Operating activities					
Cash received from patient services	$ 44,354,876	$ -0-	$ (30,496)	$ 44,324,380	$ 38,385,387
Cash paid for salaries, wages and benefits	(15,165,550)	-0-	(28,828)	(15,194,378)	(15,231,096)
Cash paid to vendors and suppliers	(26,101,605)	700	-0-	(26,100,905)	(25,077,929)
Other receipts, net	1,083,330	-0-	-0-	1,083,330	1,023,056
Net cash flows from operating activities	4,171,051	700	(59,324)	4,112,427	(900,582)
Noncapital financing activities					
Contributions	310,434	281,896	(312,335)	279,995	1,408,884
Capital and related financing activities					
Proceeds from borrowings on long-term debt	-0-	-0-	-0-	-0-	3,750,000
Payments on long-term debt	(820,859)	-0-	-0-	(820,859)	(722,871)
Interest payments on long-term debt	(296,028)	-0-	-0-	(296,028)	(275,103)
Borrowings on line of credit	845,000	-0-	-0-	845,000	3,060,000
Payments on line of credit	(2,099,864)	-0-	-0-	(2,099,864)	(3,088,824)
Purchase of capital assets	(808,886)	(1,870)	-0-	(810,756)	(4,089,181)
Net cash flows from capital and related financing activities	(3,180,637)	(1,870)	-0-	(3,182,507)	(1,365,979)
Investing activities					
Investment income	36,200	(746)	-0-	35,454	115,167
Other nonoperating revenue (expense)	-0-	(279,530)	371,659	92,129	(60,097)
Proceeds from sale of investments	2,536,866	27,223	-0-	2,564,089	41,596
Purchase of investments	(2,611,828)	(50)	-0-	(2,611,878)	(16,339)
Net cash flows from investing activities	(38,762)	(253,103)	371,659	79,794	80,327
Net change in cash and cash equivalents	1,262,086	27,623	-0-	1,289,709	(777,350)
Cash and cash equivalents					
Beginning of year	7,543,301	320,614	-0-	7,863,915	8,641,265
End of year	$ 8,805,387	$ 348,237	$ -0-	$ 9,153,624	$ 7,863,915
Reconciliation of cash and cash equivalents to the balance sheets					
In current assets					
Cash and cash equivalents	$ 6,784,833	$ 1,643	$ -0-	$ 6,786,476	$ 5,554,581
Investments	-0-	35,801	-0-	35,801	9,319
In assets whose use is limited	2,020,554	310,793	-0-	2,331,347	2,300,015
Total cash and cash equivalents	$ 8,805,387	$ 348,237	$ -0-	$ 9,153,624	$ 7,863,915
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	$ 2,451,135	$ (3,881)	$ (59,324)	$ 2,387,930	$ 413,903
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation	1,880,606	3,881	-0-	1,884,487	1,433,527
Provision for bad debts	3,231,857	-0-	-0-	3,231,857	3,637,791
Changes in operating assets and liabilities					
Patient accounts receivable	(3,692,079)	-0-	-0-	(3,692,079)	(6,187,731)
Other current assets	(460,204)	700	-0-	(459,504)	25,399
Other assets	-0-	-0-	-0-	-0-	(17)
Accounts payable and accrued expenses	919,383	-0-	-0-	919,383	(47,273)
Accrued wages and related liabilities	(277,791)	-0-	-0-	(277,791)	174,669
Estimated third-party settlements	118,144	-0-	-0-	118,144	(350,850)
Net cash from operating activities	$ 4,171,051	$ 700	$ (59,324)	$ 4,112,427	$ (900,582)
Noncash capital and noncapital financing activities					
Contribution of property	$ 177,231	$ (177,231)	$ -0-	$ -0-	$ -0-

See accompanying notes to consolidated financial statements.

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, 2015 and 2014, the changes in its financial position or its cash flows for the years then ended.

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

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements as of December 31, 2014 and for the year ended, from which the summarized information was derived.

Discrete Component Unit

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

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 2017. 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.

Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

New Accounting Standards

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governmental entities by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a governmental entities financial position.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, issued June 2015, will be effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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 equivalents 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, 2013 with differences reflected in net patient service revenue in the year

the cost report is settled. Amounts for unresolved cost reports for 2014 and 2015 are reflected in estimated third-party settlements on the consolidated balance sheets. The Hospital recognized an increase of approximately $67,000 in 2015 and a decrease of approximately $22,000 in 2014 in net patient service revenue in the consolidated statements 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 2015 and 2014 were approximately $154,000 and $637,000, respectively.

Of the Hospital's total expenses reported, including interest expense, approximately $66,000 and $308,000 arose from providing services to charity patients during 2015 and 2014, 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 2015 and 2014.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total

inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in the first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. During 2015 and 2014, the Hospital recognized approximately $111,000 and $66,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

Other Current Assets

Other current assets include inventories which are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventories consist of the following:

	2015	2014
Medical supplies and other	$ 512,979	$ 426,944
Pharmaceutical	378,173	305,829
	$ 891,152	$ 732,773

Also included in other current assets are prepaid expenses, other receivables and various other current items related to long-term care operations. These assets are classified as current as they are expected to be utilized during the next fiscal year.

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 and cash equivalents, common stocks, mutual funds and beneficial interest in perpetual trusts. Investment income, to the extent not capitalized, is reported as nonoperating revenue in the consolidated statements 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 useful lives in computing depreciation is as follows:

Description	Range of Useful Lives
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.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

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

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statues. 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, which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2014. 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, 2015 and 2014, 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 $105,000 and $103,000 for 2015 and 2014, respectively.

Compensated Absences

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

Reclassifications

Certain amounts from the 2014 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

Litigation

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

Risk Management

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

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is July 25, 2016.

2. INVESTMENTS

Investments consist of cash equivalents and mutual funds, which are reported at fair value. The following represents investments as of December 31, 2015 and 2014:

	2015	2014
Cash	$ 35,801	$ 9,319
Mutual funds	52,586	80,797
	$ 88,387	$ 90,116

3. BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Hospital is the beneficiary under two perpetual trusts held by third parties, the corpuses of which are not controlled by the management of the Hospital. Although the Hospital has no control over the administration or investment of the funds held in these trusts, the estimated fair value of the Hospital's interest in these trusts is recognized as a contribution in the period in which the Hospital receives notice that the trust agreements convey an unconditional right to receive benefits. The Hospital's interest in these perpetual trusts is reported at fair value, which is estimated as the Hospital's portion of the fair market value of the assets in the trusts. Under the terms of the perpetual trusts, the Hospital receives its portion of interest and dividends earned on the corpuses, which is included as unrestricted investment income in the consolidated statements of revenues, expenses and changes in net assets. Changes in the value of the trust assets are recorded as investment income in the consolidated statements revenues, expenses and changes in net position. The investment income and changes in the values decreased net position by approximately $26,000 and increased net position by approximately $24,000 in 2015 and 2014, respectively.

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

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

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

Assets whose use is limited consist of the following as of December 31, 2015 and 2014:

	2015	2014
Assets whose use is limited		
Internally designated		
Cash	$ 4,722	$ 4,722
Common stocks	3,777	8,487
Mutual funds	131,630	132,462
Total internally designated	140,129	145,671
Donor restricted		
Cash	2,326,625	2,295,293
Beneficial interests in perpetual trusts	1,100,766	1,196,540
Total donor restricted	3,427,391	3,491,833
Total assets limited as to use	$ 3,567,520	$ 3,637,504

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 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, 2015 and 2014, 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, 2015				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Common stocks	$ 3,777	$ 3,777	$ -0-	$ -0-	$ -0-
Mutual funds	184,216	184,216	-0-	-0-	-0-
	$ 187,993	$ 187,993	$ -0-	$ -0-	$ -0-

	December 31, 2014				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Common stocks	$ 8,487	$ 8,487	$ -0-	$ -0-	$ -0-
Mutual funds	213,259	213,259	-0-	-0-	-0-
	$ 221,746	$ 221,746	$ -0-	$ -0-	$ -0-

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

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

Deposits and investments consist of the following as of December 31, 2015 and 2014:

	2015	2014
Carrying amount		
Deposits	$ 9,153,624	$ 7,863,915
Investments	187,993	221,746
	$ 9,341,617	$ 8,085,661
Included in the balance sheet captions		
Cash and cash equivalents	$ 6,786,476	$ 5,554,581
Investments	88,387	90,116
Assets whose use is limited		
Internally designated	140,129	145,671
Donor restricted	2,326,625	2,295,293
	$ 9,341,617	$ 8,085,661

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, 2015 and 2014:

- *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.

- *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, 2015 and 2014 are as follows:

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - value funds	$ 52,586	$ 52,586	$ -0-	$ -0-
Cash	35,801			
Total investments	$ 88,387			
Assets whose use is limited				
Common stock	$ 3,777	$ 3,777	$ -0-	$ -0-
Mutual funds				
Blend fund	9,184	9,184	-0-	-0-
Bond fund	18,567	18,567	-0-	-0-
Growth fund	11,431	11,431	-0-	-0-
Large growth	56,665	56,665	-0-	-0-
Income	18,720	18,720	-0-	-0-
Total return	17,063	17,063	-0-	-0-
Total mutual funds	131,630	131,630	-0-	-0-
Beneficial interests in perpetual trusts	1,100,766	-0-	-0-	1,100,766
	1,236,173	$ 135,407	$ -0-	$ 1,100,766
Cash	2,331,347			
Total assets whose use is limited	$ 3,567,520			

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Value fund	$ 54,937	$ 54,937	$ -0-	$ -0-
Fixed income	25,860	25,860	-0-	-0-
	80,797	$ 80,797	$ -0-	$ -0-
Cash	9,319			
Total investments	$ 90,116			
Assets whose use is limited				
Common stock	$ 8,487	$ 8,487	$ -0-	$ -0-
Mutual funds				
Blend fund	9,318	9,318	-0-	-0-
Bond fund	19,192	19,192	-0-	-0-
Growth fund	10,849	10,849	-0-	-0-
Real estate	56,665	56,665	-0-	-0-
Value fund	19,062	19,062	-0-	-0-
Other	17,376	17,376	-0-	-0-
Total mutual funds	132,462	132,462	-0-	-0-
Beneficial interests in perpetual trusts	1,196,540	-0-	-0-	1,196,540
	1,337,489	$ 140,949	$ -0-	$ 1,196,540
Cash	2,300,015			
Total assets whose use is limited	$ 3,637,504			

The following is a reconciliation of activity for 2015 and 2014 for level 3 assets:

	2015	2014
Balance, beginning of year	$ 1,196,540	$ 1,221,521
Realized gain	42,179	22,464
Unrealized gain (loss)	(67,688)	1,049
Purchases	(478,436)	(55,124)
Sales	481,483	46,148
Settlements	(73,312)	(39,518)
Balance, end of year	$ 1,100,766	$ 1,196,540

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2015 and 2014.

Realized gains of approximately $42,000 and $22,000 for 2015 and 2014, respectively, and unrealized gains/(losses) of approximately ($68,000) and $1,000 for 2015 and 2014, respectively, are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment income (loss).

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.

Cash and cash equivalents, accounts payable, line-of-credit, accrued expenses, accrued wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, accrued expenses, accrued wages and related liabilities and estimated third-party settlements approximate fair value based on their short-term maturity.

Long-term debt: Fair value of the Hospital's fixed rate notes payable is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2015 and 2014, the carrying value of the fixed rate long-term debt approximated fair value.

7. CAPITAL ASSETS

Progressions for capital assets for 2015 and 2014 follow:

	December 31, 2014	Additions	Retirements	Transfers	December 31, 2015
Land	$ 188,708	$ -0-	$ -0-	$ -0-	$ 188,708
Land improvements	326,006	32,344	-0-	-0-	358,350
Buildings and improvements	16,074,116	240,682	-0-	74,300	16,389,098
Equipment	14,757,495	425,723	(37,301)	6,335	15,152,252
Construction in progress	957	112,006	-0-	(95,404)	17,559
Total capital assets	31,347,282	810,755	(37,301)	(14,769)	32,105,967
Accumulated depreciation					
Land improvements	226,078	23,789	-0-	-0-	249,867
Buildings and improvements	7,353,345	483,569	-0-	(14,769)	7,822,145
Equipment	9,868,425	1,377,043	(37,301)	-0-	11,208,167
Total accumulated depreciation	17,447,848	1,884,401	(37,301)	(14,769)	19,280,179
Capital assets, net	$ 13,899,434	$ (1,073,646)	$ -0-	$ -0-	$ 12,825,788

	December 31, 2013	Additions	Retirements	Transfers	December 31, 2014
Land	$ 188,708	$ -0-	$ -0-	$ -0-	$ 188,708
Land improvements	318,433	7,573	-0-	-0-	326,006
Buildings and improvements	13,994,177	915,024	-0-	1,164,915	16,074,116
Equipment	12,161,246	499,277	(355,334)	2,452,306	14,757,495
Construction in progress	950,871	2,667,307	-0-	(3,617,221)	957
Total capital assets	27,613,435	4,089,181	(355,334)	-0-	31,347,282
Less accumulated depreciation:					
Land improvements	221,902	4,176	-0-	-0-	226,078
Buildings and improvements	6,862,111	491,234	-0-	-0-	7,353,345
Equipment	9,276,724	938,117	(346,416)	-0-	9,868,425
Total accumulated depreciation	16,360,737	1,433,527	(346,416)	-0-	17,447,848
Capital assets, net	$ 11,252,698	$ 2,655,654	$ (8,918)	$ -0-	$ 13,899,434

There were no significant outstanding commitments related to capital assets as of December 31, 2015.

8. DEBT

The following is a summary of the Hospital's debt as of December 31, 2015 and 2014:

	2015	2014
Note payable series 2005A to financial institution dated July 7, 2005, monthly interest payments with a fixed rate of 4.523%, principal payments scheduled began October 2015 with maturity at June 2030, secured by property and equipment with a net book value of $1,684,000 and $1,861,000 as of December 31, 2015 and 2014, respectively.	$ 1,844,214	$ 1,875,000
Note payable series 2005B to financial institution dated July 7, 2005, monthly principal and interest payments with a fixed rate of 6.69%, secured by property and equipment with a net book value of $1,861,000 as of December 31, 2014. This note was paid off in 2015.	-0-	59,246
Note payable to financial institution dated February 27, 2012, monthly principal and interest payments with a variable rate of prime plus .25% (3.75% as of December 31, 2015) with maturity at February 2017, secured by real property with a net book value of $414,000 and $443,000 as of December 31, 2015 and 2014, respectively.	289,711	331,379
Note payable to financial institution dated June 1, 2012, monthly principal and interest payments with a fixed rate of 3.208%, with maturity at December 2017, secured by equipment with a net book value of $166,000 and $239,000 as of December 31, 2015 and 2014, respectively.	201,471	301,638
Note payable to financial institution dated September 29, 2014, monthly principal and interest payments at a fixed rate of 2.49% with maturity at September 2019, secured by equipment with a net book value of $1,011,000 and $1,534,000 as of December 31, 2015 and 2014, respectively.	1,484,611	1,857,551
Construction loan as of December 31, 2014 was converted to a note payable with financial institution on February 8, 2015, with monthly principal and interest payments at a fixed rate of 4.89%, with maturity at February 2025, secured by building with a net book value of $1,990,000 and $2,044,000 as of December 31, 2015 and 2014, respectively.	1,394,000	1,450,000

	2015	2014
Note payable to financial institution dated August 4, 2014, monthly principal and interest payments with a fixed rate of 2.89%, with maturity at August 2019, secured by certain equipment, fixtures, and furniture with a net book value of $193,000 and $350,000 as of December 31, 2015 and 2014, respectively.	260,679	327,446
Other notes payable	23,012	116,297
	5,497,698	6,318,557
Less current portion	764,592	780,138
	$ 4,733,106	$ 5,538,419

Progressions for long-term debt for 2015 and 2014 include the following:

	December 31, 2014	Additional Borrowings	Payments	December 31, 2015	Current Portion
Notes payable	$ 6,318,557	$ -0-	$ (820,859)	$ 5,497,698	$ 764,592

	December 31, 2013	Additional Borrowings	Payments	December 31, 2014	Current Portion
Notes payable	$ 3,291,428	$ 3,750,000	$ (722,871)	$ 6,318,557	$ 780,138

Aggregate maturities of long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2016	$ 764,592	$ 202,092	$ 966,684
2017	986,715	170,576	1,157,291
2018	654,110	149,196	803,306
2019	543,399	130,981	674,380
2020	196,348	116,068	312,416
2021-2025	1,639,557	405,463	2,045,020
2026-2030	712,977	77,268	790,245
	$ 5,497,698	$ 1,251,644	$ 6,749,342

The Hospital has a line of credit available with a local financial institution with a maximum amount of $3,500,000. The line of credit is at a variable rate of interest at the prime rate with a floor of 3.75% (3.75% as of December 31, 2015). The Hospital had approximately $2,028,000 and $3,283,000 outstanding on the line of credit as of December 31, 2015 and 2014, respectively. The line of credit expires in June 2017 and is collateralized by deposit accounts of approximately $2,471,000 as of December 31, 2015.

9. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid and the Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. 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.

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services (CMS). 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. 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.

During 2015 and 2014, the Hospital recognized HAF Program expense of approximately $296,000 and $609,000, respectively, which resulted in Medicaid rate increases. The HAF Program expense is included in operating expenses in the consolidated statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues, expenses and changes in net position. The HAF Program was approved for extension through June 30, 2017.

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 $687,000 and $492,000 during 2015 and 2014, 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.

Patient service revenue for 2015 and 2014 consists of the following:

	2015	2014
Patient service revenue		
Inpatient	$ 6,349,566	$ 5,948,094
Outpatient	58,564,223	51,632,538
Long-term care	17,707,085	17,266,758
Gross patient service revenue	82,620,874	74,847,390
Deductions from revenue		
Contractual allowances	34,272,305	28,678,151
Charity care	154,097	636,647
Provision for bad debts	3,231,857	3,637,791
Total deductions from revenue	37,658,259	32,952,589
Net patient service revenue	$ 44,962,615	$ 41,894,801

10. LEASE EXPENSE

The Hospital has multiple operating leases expiring at various times through 2017. 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 2015 and 2014 was approximately $13,000 and $16,000, respectively. Lease expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately $2,690,000 for 2015 and 2014. Annual rent expense under these leases will approximate $2,700,000 for 2016 and 2017.

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 $247,000 and $217,000 for 2015 and 2014, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Rushville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables and gross revenue from patients and third-party payors as of and for the years ended December 31, 2015 and 2014 was as follows:

	Receivables		Revenues	
	2015	2014	2015	2014
Medicare	33%	42%	38%	40%
Medicaid	28%	18%	24%	25%
Blue Cross	7%	12%	13%	15%
Commercial	16%	13%	20%	12%
Self-pay	16%	15%	5%	8%
	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 $1,113,000 and $1,198,000 as of December 31, 2015 and 2014, 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 $75,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately $1,489,000 for 2015 and 2014. 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:

	2015	2014
Unpaid claims, beginning of year	$ 187,985	$ 92,897
Incurred claims and changes in estimates	1,488,653	1,489,253
Claim payments	(1,439,749)	(1,394,165)
Unpaid claims, end of year	$ 236,889	$ 187,985

15. RISK MANAGEMENT

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 malpractice, general liability, and employee medical claims. The Hospital is insured against medical malpractice claims under a modified 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 $250,000 or aggregate claims exceeding $5,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional $5,000,000 of coverage.