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June 13, 2016

Board of Trustees
Columbus Regional Hospital
2400 E. 17th Street
Columbus, IN 47201

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditors' Report, the financial statements included in the report present fairly the financial condition of the Columbus Regional Hospital, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Independent Auditor’s Report and Financial Statements

December 31, 2015 and 2014

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2015 and 2014

Contents

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Independent Auditor's Report and Financial Statements and Supplementary Information

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

Report on the Financial Statements

We have audited the accompanying balance sheets of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Columbus Regional Hospital as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted the pension information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016 on our consideration of the Hospital’s internal control over financial reporting and 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 the 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.

BKD, LLP

Indianapolis, Indiana
April 28, 2016

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2015
(Unaudited)

Introduction

Columbus Regional Hospital (CRH or Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a ten-county region in southeastern Indiana. CRH's commitment to serving the community and being at the forefront of quality patient care is nationally recognized, as noted with numerous recognitions over the recent years including American Hospital Association's Quest for Quality Prize, Top 100 Community Hospitals by Becker's Hospital Review, and US News & World Report's top hospitals in Indiana.

The Hospital also operates eight long-term care facilities in Indiana through various lease and management agreements. These facilities had 11,702 admits and 370,622 patient days in 2015. These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. In addition, the Hospital owns two whollyowned subsidiaries (Multi-County Health Network, Columbus Diagnostic Imaging, and Columbus Surgery Center) and several joint ventures, which are generally accounted for under the equity method. This includes a joint venture called Inspire Health Partners, a clinically integrated network to further improve quality and access in the region. The following discussion and analysis represents the activity and achievements of the Hospital alone.

CRH has one of the highest home county market shares in the state, and the Hospital's ten-county market share is the largest of any hospital serving the region that is situated between Indianapolis, Louisville and Cincinnati. CRH is a county-owned hospital licensed for 325 beds and operating 198 beds.

CRH provides emergency and surgical services and comprehensive care in numerous specialty areas. The Hospital has 1,550 employees, 225 physicians on medical staff, and 250 volunteers.

CRH has provided services to the following number of patients over the past three years:

Year	Inpatients	Outpatients	Total
2015	9,020	239,176	248,196
2014	8,806	229,747	238,553
2013	8,949	222,317	231,266

As the health leaders in its community and region, CRH is establishing the best course for its future that provides patients with the very best care and service at the best value. After introducing a new vision statement in 2014 – "to be your health and wellness partner for life" – 2015 marked a significant milestone in bringing that vision to life across our health system. In 2015, CRH laid the foundation to strengthen the integration and care coordination across our health system by transitioning the Physicians' Practice Organization, Inc. to a wholly owned subsidiary (effective 1/1/2016). The new entity named Columbus Regional Health Physicians, LLC transformed the physician employment relationship into a much more contemporary model which will help improve physician retention and recruitment efforts, allow physicians to practice at the top of their license so that all efforts can be placed on excellence in patient care and quality and retaining patients within our system.

The Hospital kicked off a building project in 2014 that continued in 2015 to expand its Cancer Center and construct a new two-story Emergency Department, with final completion in spring 2016. In order to accommodate this, CRH entered into a $74.2 million tax exempt bond issue at the end of 2014. $35.5 million of these bonds are new funds to pay for the building project and the remaining balance is refinancing of existing bonds.

Business Strategy - Balanced Scorecard Approach

CRH uses the balanced scorecard methodology to measure our performance in five key pillar areas: People; Service; Quality & Safety; Growth & Innovation; and Financial Performance. CRH had its best, highest-rated overall scorecard in 2015. All are important measures, as CRH must balance the various indicators to ensure high quality patient care as it works toward its mission, *"To improve the health and well-being of the people we serve."*

People

CRH recognizes the strategic importance of having a committed and satisfied workforce, as it works to recruit and retain high performing staff. Employee retention rates at CRH are better than industry average, as are rates for registered nurse retention.

- Both physician and employee satisfaction scores scored in the upper quartile in 2015 compared to other hospitals in the country: physician satisfaction scored at the 76th percentile, while employee satisfaction ranked at the 82nd percentile.
- CRH continued its focus on employee wellness through its Healthy Me program with incentives, health assessments, and ongoing education opportunities. A total of 1,244 employees and spouses participated in the annual wellness assessment screening, up from 1,196 in 2014. There were also statistically significant improvements in the following risk factor areas: nutrition, fitness, cancer, coronary, cholesterol, blood pressure and smoking.
- The Hospital's All Workforce Event was held for the fifth year in September. The event focused on connecting the workforce with their purpose and their calling into health and healthcare. A total of 1,525 employees, physicians, and volunteers attended the event.
- Volunteers are important members of CRH's extended workforce and graciously donate their time to support the mission of the Hospital. Columbus Regional Hospital volunteers donated more than 24,380 hours to CRH in 2015.

Service Excellence

CRH saw strong results in 2015 across all main clinical service areas that resulted in strong patient and family experience levels.

- Five of our six main clinical service areas all achieved service indicators achieved greater than the 75th percentile for patient satisfaction in 2015. This was the second straight year of strong results given that 2013 ended with only four service areas above the 50^{th} percentile.
- The 7T Inpatient Rehabilitation team received Press Ganey's Guardian of Excellence Award for patient experience for the second straight year. The Press Ganey Guardian of Excellence Award is a nationally recognized symbol of achievement in health care. It honors top-performing facilities that consistently achieve the 95th percentile, or higher, for performance pertaining to the patient experience.

Quality & Safety Performance

Patient safety and quality are always the highest priority for CRH and our work is recognized by some of these most recent accomplishments:

- Columbus Regional Hospital was named one of 100 Great Community Hospitals by the national publication Becker's Hospital Review for 2015. CRH also received this award in 2014 and 2012. The national monthly publication conducts the review based on eligible hospitals' accolades, quality care, and services provided to their patient populations. Columbus Regional Hospital was one of only three Indiana hospitals included in the list.
- Columbus Regional Hospital was awarded a Platinum Performance Achievement Award for quality standards of care from the American College of Cardiology. The award recognizes commitment to and success in implementing the highest care standards and guidelines possible for heart patients, as outlined by the American College of Cardiology and the American Heart Association. To receive the designation, a hospital has to have followed the guidelines for at least eight consecutive quarters and met a performance standard of 90 percent or higher for specific outcome measures.
- The American Society for Gastrointestinal Endoscopy (ASGE), a leading gastrointestinal medical society, recognized the Endoscopy Center at Columbus Regional Hospital for demonstrating a high level of quality and safety and a rigorous commitment to safety and patient care. The ASGE Endoscopy Unit Recognition Program honors endoscopy units that have demonstrated a commitment to patient safety and quality in endoscopy as evidenced by meeting the program's rigorous criteria, which includes following the ASGE guidelines on privileging, quality assurance, endoscope reprocessing, CDC infection control guidelines and ensuring endoscopy staff competency.
- Columbus Regional Hospital's Rehabilitation Centers at Marr Road in Columbus and Nashville have been awarded Outcomes Excellence Certificates from Focus On Therapeutic Outcomes, Inc. (FOTO), a nationwide outcomes database and reporting service for healthcare providers. The certificate is awarded only to the top rehabilitation facilities across the country in recognition of excellent patient treatment outcomes during the past year.

- The Columbus Regional Hospital Pharmacy Residency Program achieved three-year accreditation (the maximum amount granted to a program). A 2015 graduate of the PGY1 Pharmacy Residency program was accepted and is currently completing a PGY2 Pharmacy Residency in medication safety at one of only six programs in the nation. Pharmacy also received approval from the State Board of Pharmacy in November for its Pharmacy Technician Training program.
- Columbus Regional Hospital's laboratory successfully passed its bi-annual College of American Pathologists inspection. It also successfully transitioned to the Medical Foundation reference lab, leading to reduced expenses and enhanced quality improvements.
- Columbus Regional Hospital was notified in 2015 that it will be included on the list of America's Best Hospitals for Heart Care by the Women's Choice Award for 2016. Columbus Regional Hospital was selected based on cardiac and vascular experience and record with regard to 30-day mortality and readmission rates for heart attacks and heart failure. Additional consideration was given to patient satisfaction scores with cardiac services. Columbus Regional Hospital is one of 250 Women's Choice Award hospitals for 2016.
- Physician documentation in the electronic medical record assisted by Dragon dictation (Dynamic Documentation) has been implemented for hospitalists, cardiologists, intensivists, oncologists and pulmonologist in 2015. This has provided immediate access to the documentation of new physician orders, changes in medication and observation of status changes.
- ED Launchpoint was implemented as an add-on to the tracking board in the ED to provide quicker information for the physicians and improve responses to get critical information for patient care (i.e. Lab results, radiology) and order additional tests or medication on the same screen.
- The implementation of "all active orders reconciliation" has helped eliminate duplicate orders for medications, labs and radiology exams as well as provide improved safety with more accuracy of orders.
- Columbus Regional Hospital's overall 30-day readmission rate remains lower than the CMS national database for key areas as pneumonia, heart attack, and heart failure.

Growth & Innovation

Innovation is one of CRH's core values to make healthcare better and serve as a benchmark for other community-based hospitals across the country. CRH's work with Lean and Six Sigma performance improvement tools is nationally recognized, as those are leveraged in process standardization projects to achieve better value for our patients. Some other examples of innovation and growth at CRH include:

- CRH kicked off a building project in 2014 with the construction of a new loading dock, expansion of the cancer center and an all new emergency department, with all to be completed by early 2016.
- Physician recruitment saw a higher number of new physicians than in recent years, with the addition of 20 new physicians to the medical staff including key areas of oncology, pulmonology, emergency medicine and primary care.

- The new WellConnect center in downtown Columbus has been open for two years and continues to serve an important role as both a referral source to our health system and an extension of our vision to our community's "health and wellness partner for life." The center includes a Care Center, wellness and health education classes, and Connection Specialists, a new role for CRH to provide resources to answer questions about health and wellness and navigate people to appropriate contacts for health needs.
- CRH partnered with Flat Rock-Hawcreek School Corporation (FRHSC) as their exclusive provider of sports medicine and athletic training services. As part of the partnership, CRH provides an athletic trainer for FRHSC at Hauser Jr.-Sr. High School. CRH adds FRHSC to its sports medicine network. CRH is already the exclusive sports medicine partner to Columbus North and Columbus East high schools.
- ENT Surgical Services and the Cancer Center reported the highest percentage of growth in 2015.
- Market share for inpatient services at CRH saw its highest level in nearly a decade in 2015 for primary and secondary markets in our region.

Financial Highlights

Columbus Regional Hospital's financial performance and activities for the year ended December 31, 2015 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The accompanying financial statements present certain information with respect to the Hospital's financial position, results of operations and cash flows, which should be read in conjunction with the following discussion and analysis, along with the accompanying financial statements and notes. Selected financial and statistical data, as of and for the years ended December 31, are shown below:

Selected Financial Data and Statistics
(Dollars in Thousands)

	2015		2014		2013	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	$ 345,281	100.0%	$ 347,217	100.0%	$ 263,054	100.0%
Salaries and benefits	91,215	26.4%	91,524	26.4%	99,657	37.9%
Supplies and drugs	43,497	12.6%	42,011	12.1%	38,129	14.5%
Purchased services and other operating expenses	164,830	47.7%	165,471	47.7%	106,362	40.4%
Depreciation and amortization	16,977	4.9%	16,878	4.9%	18,278	6.9%
Total expenses	316,519	91.7%	315,884	91.0%	262,426	99.8%
Income from operations	28,762	8.3%	31,333	9.0%	628	0.2%
Nonoperating income (expense), net	(19,660)	-5.7%	(1,413)	-0.4%	3,918	1.5%
Capital grants	(5,697)	-1.6%	-	0.0%	-	0.0%
Special items	-	0.0%	-	0.0%	(251)	-0.1%
Increase in net position	$ 3,405	1.0%	$ 29,920	8.6%	$ 4,295	1.6%
Cash Flow Data						
Cash provided by operating activities	$ 54,380		$ 37,768		$ 39,305	
Cash used in noncapital activities	(16,089)		(6,161)		(5,030)	
Cash provided by (used in) capital and related financing activities	(41,027)		10,713		(19,926)	
Cash provided by (used in) investing activities	(21,297)		(136)		1,470	
Financial Position						
Current assets	$ 100,181		$ 113,809		$ 84,917	
Capital assets, net	135,487		121,942		122,925	
Other noncurrent assets and deferred outflows of resources	182,664		188,083		147,631	
Total assets and deferred outflows of resources	$ 418,332		$ 423,834		$ 355,473	
Long-term debt, including current portion	$ 73,200		$ 78,299		$ 47,641	
Other liabilities and deferred inflows of resources	54,832		58,639		50,857	
Total liabilities and deferred inflows of resources	$ 128,032		$ 136,938		$ 98,498	
Unrestricted net position	$ 204,870		$ 180,891		$ 179,865	
Net investment in capital assets	75,063		73,908		75,285	
Restricted net position	10,368		32,096		1,825	
Total net position	$ 290,301		$ 286,895		$ 256,975	
Days cash on hand	246.5		229.4		258.7	
Hospital Operating Data						
Number of beds (available for use)	178		178		178	
Inpatient discharges	9,020		8,806		8,949	
Average daily census	95		91		94	
Average length of stay	3.8		3.8		3.8	
Occupancy	53%		51%		53%	
Inpatient case mix	1.4204		1.4140		1.3732	
Outpatient visits	239,176		229,747		222,317	

Results of Operations

The Hospital's revenues depend upon inpatient occupancy levels, the ancillary services, and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures, and the charge and negotiated payment rates for such services. The Hospital's gross charges typically do not reflect what is actually paid. The Hospital has 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 per diagnoses or discounts from gross charges. In addition, the Hospital's policy is to also provide a discount to uninsured patients. This discount is similar to the discount provided to local managed care health plans.

The Hospital receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Gross patient revenues from the Medicare and Medicaid programs have been trending steady, only changing slightly in the past three years. Governmental reimbursement policies continue to limit or reduce the levels of payments from these programs.

The approximate percentages of gross patient revenues by payer for the Hospital are set forth below:

	2015	2014	2013
Medicare	48.1%	47.1%	47.9%
Medicaid	13.0%	12.2%	12.0%
Managed care plans	31.0%	31.0%	31.4%
Other	7.9%	9.7%	8.7%

Revenues for the year ended December 31, 2015 decreased 0.6% to $345.3 million from $347.2 million in 2014. 2014 revenues were up, approximately 32.1%, when compared to 2013 revenues, which totaled $263.1 million. Increases in revenue from 2013 can be attributed to new services and pricing adjustments. Inpatient discharges for 2015 were down 2.4% and 0.8%, respectively, when compared to inpatient discharges for 2014 and 2013. Outpatient volumes in 2015 were up about 3.3% when compared to 2014. Revenues for 2013 - 2015 were also impacted by the implementation of the Hospital Assessment Fee (HAF) program, which increased net patient revenues from the Medicaid program.

Total operating expenses increased 0.2% in 2015 to $316.5 million from $315.9 million in 2014 and up 20% when compared to operating expenses in 2013, which totaled $262.4 million. Salaries and benefits and supplies decreased 0.3% and increased 3.5%, respectively. Purchased services and depreciation were down 0.4% and up 0.6%, respectively. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process standardization and improvement tools.

Income from operations for 2015 and 2014 totaled $28.8 million and $31.3 million, which was increased from $629 thousand for 2013. Net nonoperating expense for 2015 totaled $(19.7) million, which included investment losses, interest expense, bond issuance costs and contributions to related organizations. Net nonoperating expense for 2014 totaled $(1.4) million, which included investment gains, interest expense, bond issuance costs and contributions to related organizations. Net nonoperating income for 2013 also consisted of investment gains, interest expense and contributions to related organizations and totaled $3.9 million. Increase in net position for 2015 totaled $3.4 million compared to increases in net position that totaled $29.9 million for 2014 and $4.3 million in 2013.

Financial Position

Cash provided by operating activities in 2015 totaled $54.4 million. This compares to cash provided by operating activities of $37.8 million in 2014 and $39 million in 2013. The increase in the amount of cash provided from operating activities since 2012 resulted from greater cash payments to suppliers and employees, as well as more timely collection of payments following the system conversion in 2012. Capital expenditures totaled $43.5 million for 2015 and included new additions to the Hospital. As of December 31, 2015, the Hospital's construction in progress totaled $15.6 million, which includes an expanded emergency department. Capital expenditures for 2014 totaled $18.1 million with construction in progress of $8.6 million at the end of the year. Capital expenditures for 2013 totaled $13.4 million and construction in progress at the end of the year totaled $1.3 million.

Current assets decreased to $100.2 million for 2015 compared to $113.8 million in 2014 and increased compared to $84.9 million in 2013. The $13.6 million decrease for 2015 was largely due to decreased cash balances, as well as the deobligation of the grant receivable. Other noncurrent cash and investments decreased to $169.9 million for 2015 compared to $171.0 million for 2014 and increased compared to $134.0 million for 2013. The decrease can be attributed to the use of internally designated funds for capital projects from the 2014 bond issuance. A summary of other noncurrent assets is presented in the table below:

Noncurrent Assets (dollars in millions)	**2015**	**2014**	**2013**
Internally designated funds	$ 169.9	$ 171.0	$ 134.0
Other assets	9.9	9.5	10.0
Total noncurrent assets (excluding capital assets)	$ 179.8	$ 180.5	$ 144.0

The Hospital had $73.2 million in long-term debt at December 31, 2015 compared to $78.3 million for 2014 and $47.6 million for 2013. In 2014, the Hospital issued 2014A and 2014B bonds for $74.2 million, refunding the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B.

Economic Outlook

The healthcare industry continues to be challenged with how the new era under the Affordable Care Act will impact the overall healthcare delivery model for hospitals, physicians and other healthcare providers. The traditional model of fee-for-service continues for hospitals and physicians, while trying to work at the same time in population health management, which has a different reimbursement approach. The promises of this new era are an exciting time to further improve access, reduce costs and improve quality for the American healthcare consumer, but it requires fundamental shifts in business and care delivery models.

The economic outlook for the geographic location where Columbus Regional Hospital is positioned in Columbus, Indiana is overall a positive one. Columbus, Indiana is home to more mechanical engineers per capita than any other community in the United States, due to the global headquarters office of Cummins, Inc. This contributes to Columbus having the 25th highest per capita income among the 381 metropolitan areas measured by the US Bureau of Economic Analysis. Yet, Columbus, Indiana has a diverse socioeconomic population, with nearly 50% of school children qualifying for free or reduced lunch rates in Columbus schools.

Columbus has experienced steady job growth over the past several years as it remains a strong hub for manufacturing companies with its convenient location situated within an hour of Indianapolis, Louisville and Cincinnati. The world headquarters of Cummins, Inc. in Columbus offers many high-income engineering and business jobs for the local economy.

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 information, contact the Hospital Chief Financial Officer's Office at 2400 East 17th Street Columbus, IN 47201.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Balance Sheets
December 31, 2015 and 2014

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets		
Cash and cash equivalents	$ 43,623,758	$ 48,354,257
Patient accounts receivable, less allowance for uncollectible accounts ($5,286,996 in 2015 and $6,946,787 in 2014)	37,019,543	34,796,270
Grants receivable	585,082	5,088,901
Other receivables	8,458,822	15,987,166
Inventories	3,474,556	3,146,579
Prepaid expenses	4,599,742	4,635,701
Trustee-held funds, current	2,419,580	-
Restricted current assets limited as to use	-	1,800,456
Total current assets	100,181,083	113,809,330
Noncurrent Cash and Investments		
Internally designated	159,551,473	140,752,967
Trustee-held funds, less current	10,356,201	30,276,737
Total noncurrent cash and investments	169,907,674	171,029,704
Capital Assets		
Plant and equipment	349,911,418	330,637,692
Less accumulated depreciation	231,889,000	219,077,793
	118,022,418	111,559,899
Land	1,806,052	1,786,052
Construction in progress	15,658,793	8,596,396
Capital assets, net	135,487,263	121,942,347
Other Assets		
Notes receivable, related party	3,456,061	3,746,283
Joint venture investments and other notes receivable	5,475,528	4,769,727
Goodwill	940,768	940,768
Total assets	415,448,377	416,238,159
Deferred Outflows of Resources		
Losses on debt refunding	886,824	1,034,628
Interest rate swap agreements	1,997,497	2,350,904
Pension	-	4,210,000
Total deferred outflows of resources	2,884,321	7,595,532
Total assets and deferred outflows of resources	$ 418,332,698	$ 423,833,691

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Current Liabilities		
Accounts payable	$ 21,944,507	$ 20,498,273
Salaries, wages and related liabilities	8,654,524	8,960,471
Accrued interest payable	72,218	191,289
Estimated third-party payer settlements	3,196,548	3,687,778
Other accrued liabilities	18,587,600	17,301,740
Current portion of long-term debt	5,465,000	5,070,000
Total current liabilities	57,920,397	55,709,551
Fair Value of Interest Rate Swap Agreements	1,997,497	2,350,904
Long-Term Obligations	67,735,000	73,228,673
Accrued Pension Cost	232,194	5,649,126
Total liabilities	127,885,088	136,938,254
Deferred Inflows of Resources - Pension experience gain	146,893	-
Total liabilities and deferred inflows of resources	128,031,981	136,938,254
Net Position		
Unrestricted	204,870,111	180,891,198
Net investment in capital assets	75,063,044	73,908,370
Restricted	10,367,562	32,095,869
Total net position	290,300,717	286,895,437
Total liabilities, deferred inflows of resources and net position	$ 418,332,698	$ 423,833,691

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of $11,565,884 in 2015 and $14,244,756 in 2014	$ 342,634,812	$ 342,757,719
Other operating revenue	2,646,614	4,459,510
Total operating revenue	345,281,426	347,217,229
Operating Expenses		
Salaries and wages	70,323,267	69,023,843
Employee benefits	20,892,009	22,500,169
Fees	18,721,520	17,008,914
Supplies	43,496,598	42,011,221
Purchased services	129,346,510	125,825,184
Depreciation and amortization	16,977,150	16,878,263
Insurance	3,767,166	3,611,398
Hospital assessment fee	7,613,136	14,096,046
Other	5,381,974	4,929,302
Total operating expenses	316,519,330	315,884,340
Operating Income	28,762,096	31,332,889
Nonoperating Income (Expenses)		
Investment return	(2,085,151)	6,898,929
Interest expense	(1,327,695)	(1,905,333)
Contributions to related organizations	(15,268,105)	(5,157,376)
Other nonoperating expense	(979,360)	(1,249,099)
Total nonoperating expense	(19,660,311)	(1,412,879)
Excess of Revenues Over Expenses Before Impairment of Assets	9,101,785	29,920,010
Deobligation of Capital Grant Funds	(5,696,505)	-
Increase in Net Position	3,405,280	29,920,010
Net Position, Beginning of Year	286,895,437	256,975,427
Net Position, End of Year	$ 290,300,717	$ 286,895,437

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Cash received from patients and third-party payers	$ 339,920,309	$ 337,770,408
Cash payments to employees for services	(88,542,243)	(94,416,973)
Cash payments to suppliers for goods and services	(207,172,688)	(198,677,605)
Other cash received	10,174,958	(6,907,717)
Net cash provided by operating activities	54,380,336	37,768,113
Noncapital Financing Activities		
Contributions to related parties	(15,268,105)	(5,157,376)
Other nonoperating	(820,615)	(1,003,135)
Net cash used in noncapital financing activities	(16,088,720)	(6,160,511)
Capital and Related Financing Activities		
Principal paid on long-term debt	(5,070,000)	(43,475,000)
Proceeds from issuance of long-term debt	-	74,205,000
Interest paid on long-term debt	(1,356,368)	(1,905,333)
Acquisition and construction of capital assets	(30,680,811)	(18,111,535)
Deobligated capital grants	(3,919,846)	-
Net cash provided by (used in) capital and related financing activities	(41,027,025)	10,713,132
Investing Activities		
Investment income	6,786,288	5,651,643
Purchase of investments in assets limited as to use	(55,075,713)	(24,221,640)
Disbursements for notes receivable	(1,258,391)	(559,888)
Collections of notes receivable	845,546	280,848
Sale of investments in assets limited as to use	27,405,768	18,713,002
Net cash used in investing activities	(21,296,502)	(136,035)
Net Increase (Decrease) in Cash and Cash Equivalents	(24,031,911)	42,184,699
Cash and Cash Equivalents at Beginning of Year	80,431,450	38,246,751
Cash and Cash Equivalents at End of Year	$ 56,399,539	$ 80,431,450

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 43,623,758	$ 48,354,257
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	12,775,781	32,077,193
Total cash and cash equivalents	$ 56,399,539	$ 80,431,450
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 28,762,096	$ 31,332,889
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	16,977,150	16,878,263
Provision for uncollectible accounts	11,565,884	14,244,756
Change in assets and liabilities		
Patient accounts receivable and third-party settlements	(14,280,387)	(19,232,067)
Other assets	7,233,592	(11,965,613)
Deferred outflows and inflows of resources	4,504,697	(4,210,000)
Current liabilities	(382,696)	10,719,885
Net cash provided by operating activities	$ 54,380,336	$ 37,768,113
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	$ 3,778,524	$ 3,228,643

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Columbus Regional Hospital (Hospital) is an acute care hospital located in Columbus, Indiana. The Hospital is a component unit of Bartholomew County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Bartholomew County and surrounding areas.

The Hospital also operates eight long-term care facilities through various lease agreements and management agreements. These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. The facilities are managed by third parties under various management agreements. The revenues from operations are the property of the Hospital and the Hospital is responsible for the associated expenses and working capital requirements.

The Hospital is the party to several joint venture activities, which are generally accounted for under the equity method, and are more fully described later in the notes to financial statements.

In accordance with this GASB Statement No. 61, the financial statements include the financial statements of Columbus Surgery Center, LLC, Multi-County Health Network, LLC and Columbus Area Radiology, LLC (dba Columbus Diagnostic Imaging). Each of these separate legal entities have been reported as blended component units of the Hospital.

Effective January 2016, the operations of the Physician's Practice Organization, Inc. (PPO), which is consolidated into Southeastern Indiana Health Management, Inc. (SIHM) a related party of the Hospital, were ceased and a new organization called Columbus Regional Health Physicians, LLC. (CRHP) was formed. Effective January 1, 2016, CRHP will be a blended component unit of the Hospital in accordance with GASB Statement No. 61.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market accounts with banks.

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; and employee health, dental and accident benefits. The Hospital insures itself from general liability and medical malpractice liability through participation in a reciprocal risk retention group. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice, employee health and workers compensation claims. Annual estimated provisions are accrued for the self-insured portion of the self-insured claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Return

The investment in certain joint venture activities is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments, and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Deferred Inflows and Outflows of Resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows are reported in the statements of net position but are not recognized in the financial statements as revenues until the periods to which they relate. Deferred inflows of resources of the Hospital consist of items related to the defined-benefit pension plan.

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. Deferred outflows are reported in the statements of net position but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the Hospital consist of deferred losses on debt refundings (defeasance costs), interest rate swap agreements and items related to the defined-benefit pension plan.

Deferred amounts on refunding, which are included in deferred outflows of resources on the balance sheets, represent losses incurred in connection with the refunding of various long-term debt. Such losses are being amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

Inventories

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method or market.

Goodwill

Goodwill has a carrying value at December 31, 2015 and 2014 of $940,768. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. There were no write-downs in the carrying amounts of goodwill during 2015 or 2014.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense information about the fiduciary net position of the Hospital’s defined-benefit pension plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension plan investments are reported at fair value.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	10 - 15 years
Buildings and leasehold improvements	15 - 25 years
Equipment	3 - 10 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Employees earn 24, 29, 34 and 39 PTO days upon attaining specified years of employment. Part-time employees earn PTO hours on a pro rata basis on the specified years of employment. PTO days can be used for vacation, illness or bereavement.

Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets, less remaining liabilities that do not meet the definition of investment in capital assets or restricted.

Interest Rate Swap Agreements

The Hospital uses interest rate swap agreements to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital is accounting for the interest rate swap agreements as hedging instruments. As a result, the agreements are recorded at fair value in the balance sheets. The net cash payments or receipts under the interest rate swap agreements are recorded as an increase or decrease to interest expense.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Grants and Contributions

From time to time, the Hospital receives certain federal and state grants, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue under the Medicare program ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2014, the Hospital completed the third-year requirements under the Medicaid program and has recorded approximately $120,000, which is included in other operating revenue in the statement of revenues, expenses and changes in net position. The Hospital also completed the second year requirements under the Medicare program in 2014. Accordingly, the Hospital recognized revenue of approximately $1,600,000, which is included in other operating revenue in the statement of revenues, expenses and changes in net position.

In 2015, the Hospital did not complete any attestations for the Medicaid or Medicare program, therefore, the Hospital did not recognize any revenue during the year.

Long-Term Nursing Facilities

During 2014, the Hospital acquired nursing home operations through the execution of licensing agreements, management agreements and lease agreements with various third parties. The nature of the agreements provide the Hospital the rights to all operating assets, government provider numbers and real estate. In connection with these agreements, the Hospital simultaneously entered into management agreements with a third party to execute the operations of the nursing home. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is a non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheets and statements of revenues, expenses and changes in net position. The Hospital did not acquire any new nursing homes during 2015.

Note 2: Blended Component Units

The financial statements include the blended component unit accounts of Columbus Surgery Center LLC (CSC), Multi-County Health Network LLC (MCHN) and Columbus Diagnostic Imaging (CDI) as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2015 and 2014.

	CSC		MCHN		CDI	
	2015	2014	2015	2014	2015	2014
Total current assets	$ -	$ -	$ 46,236	$ 33,963	$ 413,965	$ 270,141
Total noncurrent assets	-	-	-	-	232,482	184,829
Total assets	$ -	$ -	$ 46,236	$ 33,963	$ 646,447	$ 454,970
Total liabilities	$ -	$ -	$ 16,975	$ 17,204	$ 111,998	$ 117,913
Net position	-	-	29,261	16,759	534,449	337,057
Total liabilities and net position	$ -	$ -	$ 46,236	$ 33,963	$ 646,447	$ 454,970
Revenue	$ -	$ 17,497	$ -	$ -	$ 1,520,219	$ 1,386,287
Operating expenses	-	(29,957)	(167,498)	(163,333)	(2,159,000)	(1,876,902)
Nonoperating revenue (expenses)	-	(25,283)	-	-	70,000	-
Transfer from Hospital	-	(163,540)	180,000	100,000	766,173	350,000
Change in net position	-	(201,283)	12,502	(63,333)	197,392	(140,615)
Net position, beginning of year	-	201,283	16,759	80,092	337,057	477,672
Net position, end of year	$ -	$ -	$ 29,261	$ 16,759	$ 534,449	$ 337,057

Note 3: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

A summary of payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to the Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Medicaid Disproportionate Share. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive certain supplemental Medicaid payments. The amounts of these supplemental Medicaid payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental Medicaid payments under this program have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately $5.5 million and $10.2 million of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2015 and 2014, respectively.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately $7.6 million and $14.1 million of fees related to the program in 2015 and 2014, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

Approximately 57% and 58% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in net patient service revenue. The Hospital recognized approximately $14.5 million and $12.4 million related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

The 2015 net patient service revenue increased approximately $1,407,000 due to removal of previously estimated amounts. The 2014 net patient service revenue decreased approximately $360,000 due to removal of previously estimated amounts.

Details of gross patient charges and contractual allowances are as follows:

	2015	2014
Gross patient charges		
Inpatients	$ 329,287,922	$ 311,820,523
Outpatients	324,272,267	295,958,025
	653,560,189	607,778,548
Charity care charges foregone	(11,682,643)	(10,143,159)
Provision for bad debt	(11,565,884)	(14,244,756)
Contractual allowances	(287,676,850)	(240,632,914)
Net patient service revenue	$ 342,634,812	$ 342,757,719

Note 4: Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides, as well as the amount of charges foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2015 and 2014, charges excluded from revenue under its charity policy were $14,319,771 and $15,613,703, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was $5,750,820 for 2015 and $6,820,065 for 2014.

Note 5: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2015 and 2014, the Hospital had the following investments, all of which mature within one year:

	2015	2014
Cash equivalents - money market funds	$ 12,775,781	$ 32,077,193
Investments		
Mutual funds	$ 159,340,958	$ 140,378,183
Interest receivable	210,515	374,784
	$ 159,551,473	$ 140,752,967

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy states an expected duration of investments between two and five years. The money market account and mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in money market funds with a rating of AAA or above by Standard & Poor's or Aaa or above by Moody's, with a maximum maturity of one year. At December 31, 2015 and 2014, the Hospital's investments in mutual funds were not rated by Standard & Poor or Moody. No investments are to be made by the Hospital in nonmarketable securities.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments in repurchase agreements, equities and fixed income securities at December 31, 2015 and 2014 are held by the counterparties in other than the Hospital's name.

Concentration of Credit Risk - The Hospital establishes ranges by investment category to limit investment concentration. At December 31, 2015 and 2014, the Hospital's investment in mutual funds consisted of:

	2015	2014
PIMCO fixed income funds	10%	11%
Scout Core Plus Bond Fund Institutional	24%	27%
Mainstay ICAP Select Equity fund	9%	11%
Metropolitan West T/R Bond fund	23%	14%
Vanguard Institutional Index fund	8%	9%
Other funds	26%	28%
	100%	100%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	$ 53,979,959	$ 80,431,450
Investments	161,971,053	140,752,967
	$ 215,951,012	$ 221,184,417
Included in the following balance sheets captions		
Cash and cash equivalents	$ 43,623,758	$ 48,354,257
Current assets limited as to use	-	1,800,456
Trustee-held-funds, current	2,419,580	-
Noncurrent assets limited as to use	169,907,674	171,029,704
	$ 215,951,012	$ 221,184,417

Investment Return

Investment return for the years ended December 31, 2015 and 2014 consisted of:

	2015	2014
Interest and dividend income	$ 6,786,288	$ 5,651,643
Net increase (decrease) in fair value of investments	(8,871,439)	1,247,286
	$ (2,085,151)	$ 6,898,929

Note 6: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of accounts receivable from patients and third-party payers at December 31, 2015 and 2014 was as follows:

	2015	2014
Medicare	33.5%	33.7%
Medicaid	14.7%	11.8%
Other third-party payers	44.2%	41.0%
Individual patients	7.6%	13.5%
	100.0%	100.0%

Note 7: Investment in and Advances to Equity Investees

The Hospital participates as a joint owner in several companies. The investment by the Hospital in these companies is recorded in accordance with the equity method of accounting. Where the Hospital's ownership percentage is less than 20%, the cost method of accounting is used. A listing of the companies, ownership percentages and the net investment values as of December 31 are as follows:

Company Name - Description	Ownership %	2015 Investment Amount	2014 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	$ 628,185	$ 639,562
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	181,921
United Hospital Services, LLC - Laundry Services	4.35%	262,722	262,722
inSpire Health Partners, LLC - Integrated Network	50.00%	61,587	89,971
Indiana Healthcare Reciprocal Risk Retention Group	12.50%	335,311	335,311
Total		$ 1,919,726	$ 1,959,487

Note 8: Capital Assets

Capital assets activity for the years ended December 31, 2015 and 2014 was:

2015	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,786,052	$ 20,000	$ -	$ -	$ 1,806,052
Land improvements	17,440,817	3,121,505	-	-	20,562,322
Buildings and leasehold improvements	185,082,504	10,445,233	(54,416)	-	195,473,321
Equipment	128,114,371	10,060,526	(4,270,272)	-	133,904,625
Construction in progress	8,596,396	19,804,835	-	(12,771,288)	15,629,943
	341,020,140	43,452,099	(4,324,688)	(12,771,288)	367,376,263
Less accumulated depreciation					
Land improvements	10,688,464	571,635	-	-	11,260,099
Buildings and leasehold improvements	113,757,208	7,489,185	(31,686)	-	121,214,707
Equipment	94,632,121	8,916,330	(4,134,257)	-	99,414,194
	219,077,793	16,977,150	(4,165,943)	-	231,889,000
	$ 121,942,347	$ 26,474,949	$ (158,745)	$ (12,771,288)	$ 135,487,263

2014	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,770,052	$ 16,000	$ -	$ -	$ 1,786,052
Land improvements	17,319,643	188,372	(67,198)	-	17,440,817
Buildings and leasehold improvements	182,149,138	3,588,482	(360,691)	(294,425)	185,082,504
Equipment	126,665,979	4,920,085	(3,471,693)	-	128,114,371
Construction in progress	1,285,621	9,948,455		(2,637,680)	8,596,396
	329,190,433	18,661,394	(3,899,582)	(2,932,105)	341,020,140
Less accumulated depreciation					
Land improvements	10,252,510	499,201	(63,247)	-	10,688,464
Buildings and leasehold improvements	107,258,185	6,818,313	(319,290)	-	113,757,208
Equipment	88,754,482	9,488,829	(3,245,422)	(365,768)	94,632,121
	206,265,177	16,806,343	(3,627,959)	(365,768)	219,077,793
	$ 122,925,256	$ 1,855,051	$ (271,623)	$ (2,566,337)	$ 121,942,347

Note 9: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the Indiana Malpractice Act (the Act) limits professional liability for claims prior to July 1, 1999 to a maximum recovery of $750,000 per occurrence ($3,000,000 annual aggregate), $100,000 of which would be paid through malpractice insurance coverage, and the balance would be paid by the State of Indiana patient Compensation Fund (the Fund). For claims on or after July 1, 1999, the maximum recovery is $1,250,000 per occurrence ($7,500,000 annual aggregate), $250,000 of which would be paid through insurance coverage and the remainder by the Fund.

During 2003, the Hospital became one-eighth a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. This captive insurance company was fully recognized by the Fund as of October 1, 2003. The initial capital contribution of $166,667 has been included in other assets, along with additional funds remitted thereafter of $168,644. Effective February 1, 2004, the captive insurer provided insurance coverage to the Hospital for the required portion of the insurance coverage pursuant to the Act as well as its liability insurance. In prior years, insurance coverage was provided by ProAssurance and PHICO Insurance Company (PHICO).

Note 10: Self-Insured Claims

Substantially all of the Hospital’s employees and their dependents are eligible to participate in the Hospital’s employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount $250,000 in 2015 and 2014. The Hospital is also self-insured for worker’s compensation claims. Commercial stop-loss insurance coverage is purchased for health claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital’s estimate will change by a material amount in the near term. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Activity in the Hospital's accrued employee health claims liability, which is included in other accrued liabilities in the balance sheets, during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	$ 1,631,527	$ 1,676,153
Current year claims incurred and changes in estimates for claims incurred in prior years	11,853,710	9,388,860
Claims and expenses paid	(10,966,243)	(9,433,486)
Balance, end of year	$ 2,518,994	$ 1,631,527

Note 11: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2015 and 2014:

2015	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2014	$ 74,205,000	$ -	$ (1,005,000)	$ 73,200,000	$ 5,465,000
Indiana Health Facility Financing Authority Bonds - Series 1993	4,065,000	-	(4,065,000)	-	-
	78,270,000	-	(5,070,000)	73,200,000	5,465,000
Plus: Unamortized bond premium	28,673	-	(28,673)	-	-
Total long-term debt	$ 78,298,673	$ -	$ (5,098,673)	$ 73,200,000	$ 5,465,000

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2014					
Indiana Health Facility Financing Authority Bonds Series 2009	$ -	$ 74,205,000	$ -	$ 74,205,000	$ 1,005,000
Indiana Health Facility Financing Authority Bonds - Series 1993	39,675,000	-	(39,675,000)	-	-
	7,865,000	-	(3,800,000)	4,065,000	4,065,000
	47,540,000	74,205,000	(43,475,000)	78,270,000	5,070,000
Plus: Unamortized bond premium	100,593	-	(71,920)	28,673	-
Total long-term debt	$ 47,640,593	$ 74,205,000	$ (43,546,920)	$ 78,298,673	$ 5,070,000

Revenue Bonds Payable

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 1993, payable August 2015 are subject to mandatory redemption through the operation of a sinking fund, which commenced August 15, 2009. The remaining principal payable was paid in full during fiscal year 2015. The amount of the principal payable at December 31, 2015 and 2014 totals $0 and $4,065,000, respectively. The unamortized bond issue premium at December 31, 2015 and 2014 totals $0 and $28,673. Interest is payable semiannually at 7.0%.

In July 1993, the Hospital issued its note to the Indiana Health Facility Financing Authority (IHFFA) securing the IHFFA Hospital Revenue Refunding Bonds, Series 1993, in the amount of $78,955,000. On August 15, 2003, a portion of the Series 1993 Bonds was called, leaving $23,440,000 outstanding. The Series 1993 Bonds are not collateralized by a pledge, grant or mortgage of any real property of the Hospital. However, the Hospital has covenanted not to create any lien on its property other than certain permitted encumbrances. In addition, the bond agreements require maintenance of a certain debt service coverage ratio, limit additional borrowings and require compliance with other restrictive covenants.

In November 2009, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B in the amount of $43,095,000. The bonds were issued to refund the IHFFA Hospital Revenue Refunding Bonds, Series 2003.

In December 2014, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Hospital Revenue Bonds, Series 2014A and Series 2014B in the amount of $74,205,000. The bonds were issued to refund the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B, and provide additional funding for a new capital project. Annual principal payments are due serially through August 1, 2044. Interest rates vary with London Interbank Offered Rate (LIBOR) and at December 31, 2015 was 0.98% for the Series 2014A and 0.85% for the Series 2014B.

The Series 2014 Bond issue requires the Hospital to maintain certain financial covenants similar to previous bond issues. In connection with refunding of the Series 2009 Bonds, the related loss on bond defeasance was deferred and is being amortized over the life of the Series 2014B bond issue.

The debt service requirements as of December 31, 2015, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2016	$ 6,914,701	$ 5,465,000	$ 1,449,701
2017	7,105,691	5,770,000	1,335,691
2018	7,309,618	6,090,000	1,219,618
2019	7,522,125	6,425,000	1,097,125
2020	7,750,659	6,780,000	970,659
2021 - 2025	15,801,642	12,210,000	3,591,642
2026 - 2030	9,730,624	6,895,000	2,835,624
2031 - 2035	9,729,028	7,645,000	2,084,028
2036 - 2040	9,725,769	8,475,000	1,250,769
2041 - 2044	7,783,913	7,445,000	338,913
	$ 89,373,770	$ 73,200,000	$ 16,173,770

Note 12: Line of Credit Agreement

The Hospital has an unsecured taxable line of credit providing up to $10,000,000 of nonrevolving credit. This line will mature in January 2016 and will be renewed for another year. As of December 31, 2015 and 2014, there were no borrowings against this line of credit.

Note 13: Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreements

The Hospital's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Hospital entered into interest rate swap agreements for its bonds. The intention of the swaps is to effectively change the Hospital's variable interest rate on this note to a synthetic fixed rate.

Terms

The agreements required no initial net cash receipt or payment by the Hospital. The agreements provide for the Hospital to receive interest from the counterparty at a variable rate based on the London Interbank Offering Rate (LIBOR) and to pay interest to the counterparty at a fixed rate on notional amounts as set forth in the tables below:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2015
$ 11,155,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	$ (1,016,627)
12,540,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(980,870)
$ 23,695,000						$ (1,997,497)

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2014
$ 11,505,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	$ (1,200,463)
12,940,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(1,150,441)
$ 24,445,000						$ (2,350,904)

Under the agreements, the Hospital pays or receives the net interest amount every 35 days, with the monthly settlements included in interest expense.

Fair Value

The fair values of the agreements are based on estimated discounted future cash flows determined using the counterparty's proprietary models based upon financial principles and estimated relevant future market conditions. The fair values of the agreements are recognized in other liabilities in the Hospital's balance sheets. As the swaps are effective hedging instruments, the offsetting balance is reflected as deferred outflows of resources on the Hospital's balance sheets. The changes in fair value of the swap agreements of $(353,407) and $(47,289) for the years ended December 31, 2015 and 2014, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

Interest Rate Risk

The Hospital entered into the interest rate swap agreements as a means of limiting its exposure to fair value losses occurring from rising variable interest rates associated with various bonds. Beginning in 2004, the notional amount of the swap agreements declines by a corresponding amount each time a principal payment becomes due on the associated debt until the notional amounts for each agreement reach $0 at the termination of the swap agreements. At December 31, 2015, the notional amount of the interest rate swap agreements will decline as follows:

Maturities in Years			
Less Than 1	1-5	6-10	More Than 10
$ 715,000	$ 18,825,000	$ 4,155,000	$ -

Credit Risk

The fair value of each swap represents the Hospital's credit exposure to the counterparty as of December 31. Should the counterparties to these transactions fail to perform according to the terms of the swap agreements, the Hospital has a maximum possible loss equivalent to the fair value at that date. To mitigate the potential for credit risk, the swaps are insured by Assured Guaranty Corporation, which was rated A3 by Moody's Investors Service as of December 31, 2015 and 2014. The Hospital does not currently have a policy of requiring the counterparty post collateral in the event the Hospital becomes exposed to credit risk. The Hospital does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

Basis Risk

The swaps expose the Hospital to basis risk should the relationship between LIBOR and the prime rate set by the Hospital's lender change in a manner adverse to the Hospital. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be realized.

Termination Risk

The Hospital or counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If the swaps were terminated, the variable-rate bonds would no longer have a synthetic fixed rate of interest. Also, if the swaps have a negative fair value at the time of termination, the Hospital would be liable to the counterparty for a payment equal to the fair value of the respective swap.

The change in the Hospital's fair value of interest rate swap agreements during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	$ (2,350,904)	$ (2,398,193)
Change in market value	353,407	47,289
Balance, end of year	$ (1,997,497)	$ (2,350,904)

Swap Payments and Associated Debt

Using rates as of December 31, 2015, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

Years Ending December 31	2014 Bonds Principal	2014 Bonds Interest	Interest Rate Swap, Net	Total to be Paid
2016	$ 5,465,000	$ 1,449,701	$ 582,195	$ 7,496,896
2017	5,770,000	1,335,691	522,811	7,628,502
2018	6,090,000	1,219,618	433,268	7,742,886
2019	6,425,000	1,097,125	340,513	7,862,638
2020	6,780,000	970,659	244,773	7,995,432
2021 - 2025	12,210,000	3,591,642	145,877	15,947,519
2026 - 2030	6,895,000	2,835,624	-	9,730,624
2031 - 2035	7,645,000	2,084,028	-	9,729,028
2036 - 2040	8,475,000	1,250,769	-	9,725,769
2041 - 2044	7,445,000	338,913	-	7,783,913
	$ 73,200,000	$ 16,173,770	$ 2,269,437	$ 91,643,207

Note 14: Restricted and Designated Net Position

At December 31, 2015 and 2014, restricted net position was available for the following purposes:

	2015	2014
Debt service	$ 10,356,201	$ 32,077,193
Capital acquisitions	11,361	18,676
Total restricted net position	$ 10,367,562	$ 32,095,869

At December 31, 2015 and 2014, approximately $170 million and $171 million, respectively, of the Hospital's unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated portion of net position remain under the control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

Note 15: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2022. Total rental expense in 2015 and 2014 for all operating leases was approximately $10,600,000 and $10,300,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2015 that have initial or remaining lease terms in excess of one year:

2016	$ 10,356,235
2017	8,889,813
2018	2,406,266
2019	547,864
2020	525,252
2021 - 2023	851,905
Future minimum lease payments	$ 23,577,335

Note 16: Retirement Plans

General Information About the Pension Plan

The Hospital had a defined-benefit pension plan as authorized by IC 16-22-3-11, covering substantially all employees of the Hospital, which was frozen in December 2012. The plan provides retirement benefits to plan members and beneficiaries. The Hospital issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing to Columbus Regional Hospital, 2400 E. 17th Street, Columbus, Indiana 47201.

In September 2013, the Hospital's Board of Trustees decided to terminate and liquidate the defined-benefit pension plan, depending on regulatory approval, among other factors. The board's decision to terminate the plan resulted in a remeasurement of the plan in 2013. The plan froze benefits and eligibility on December 16, 2012.

On April 1, 2016, the final payout of the pension benefits to related participants were made.

Benefits Provided

The plan provided retirement benefits to its participants. Each participant had an account that earned credit based upon a defined table that considered tenure with the Hospital, compensation earned during the course of their employment, annual interest credits and a final average pay credit. The amount of retirement income available to a participant was equal to 20% of the participants account balance, as described above, plus 20% of the participant's account balance for each year thereafter up to seven years. Effective December 31, 2014, all participants were 100% vested due to the plan termination.

Employees Covered by Benefit Terms

The plan was closed to new entrants effective December 16, 2012, which is the same date benefits were frozen.

At December 31, 2015 and 2014, the following employees were covered by the benefit terms:

	2015	2014
Active	1,224	1,403
Terminated-vested	321	373
Retired and beneficiary	120	116
Total	1,665	1,892

Contributions

The Hospital was required to contribute at an actuarially determined rate. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2015 and 2014 were $4,210,000 and $5,047,000.

Net Pension Liability

The Hospital's net pension liability was measured as of January 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment return	.5%
Mortality tables	2014 IRS Static Mortality Tables

The expected rate of return on pension plan investments was determined based upon the pending termination as the investment mix has been converted to a conservative portfolio. Prior to the plan termination basis, investment return was 7%.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Expected Return
Cash equivalents	1%	0%
Fixed income	99%	1%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was .5% and 1% in 2015 and 2014, respectively, given the impending plan termination.

Changes in the Net Pension Liability

	2015	2014
Beginning balance	$ 5,649,126	$ 5,448,052
Contributions	(4,210,000)	(5,047,000)
Net investment return	(731,374)	(3,549,020)
Fees, expenses and other	706,128	2,522,270
Actuarial change	(1,181,686)	6,274,824
Ending balance	$ 232,194	$ 5,649,126

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended December 31, 2015 and 2014, the Hospital recognized pension (expense)/gain of $(1,060,039) and $201,074, respectively.

Any remaining expense will be recorded in 2016, which is the year in which the Hospital terminated the plan and all remaining benefits were paid.

Note 17: Commitments and Contingencies

Commitments

As of December 31, 2015, the Hospital had material commitments for acquisition of capital assets totaling approximately $11.7 million, primarily for a new building project to expand the emergency department and cancer center, which began during 2014.

During 2014, the Hospital, along with two other hospitals, agreed to guarantee a $1,000,000 reserve line of credit for the Innovative Physician Solutions, a Risk Retention Group, Inc. This company is an Arizona risk retention group insurer which provides cost-effective medical malpractice insurance coverage for the physicians in Bartholomew County and the surrounding region. The Hospital's maximum contingent liability under the pro rata guarantee was $425,000. No amount had been drawn on this line of credit in 2014. During 2015, the guarantee was terminated.

Regulatory Audit

The Hospital is currently subject to a regulatory audit related to spending of federal expenditures. As of the date of the report, potential liabilities that may arise from the audit cannot be fully estimated. The Hospital has a recorded a reserve of approximately $890,000 as of December 31, 2015, for management's best estimate of amounts that may potentially be paid back to the federal government. Events could occur that would cause the estimate to differ materially in the near term.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital is involved in litigation and regulatory investigations arising in the 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 or results from operations. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 18: Related Party Transactions

The Hospital is related to several operating entities, which do not require presentation as component units within the Hospital's financial statements. These entities are related due to the existence of common directors. The following transactions and year-end balances are included in the financial statements of the Hospital:

Corporate Name/Nature of Relationship	2015	2014
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	$ 4,699,044	$ 4,699,044
Rent expense	206,226	220,599
Director expense	297,790	334,340
Insurance expense	618,943	555,000
Note receivable	3,456,061	3,740,944
Contributions to related organizations	17,184,556	5,959,089
Investment income	137,470	135,270
Contract services reimbursed	13,533,539	13,237,406
Employee benefit reimbursement received	122,002	119,320
Miscellaneous income	759,035	619,628
Other receivables	238,442	272,926
Accounts payable	1,804,324	1,035,940
Prepaid insurance	318,143	308,000
Notes receivable (including interest) due from SIHM are made up of the following:		
Interest free note due December 2017	$ -	$ 232,371
Note due on demand, interest paid at prime plus 1%	161,068	213,579
Long-term note due July 1, 2020, interest of 4%	3,294,994	3,294,994
	$ 3,456,062	$ 3,740,944
Columbus Regional Health Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	$ 410,500	$ 710,000
Contributions received from the Foundation	81,999	65,548
Other receivables	22,623	23,434
Other payables	-	50,000
Our Hospice of South Central Indiana, Inc.		
Hospital purchases services		
Operating expenses	54,241	60,000
Miscellaneous sales to Hospice	107,052	147,844
Other receivables	69,097	57,023

Included within SIHM's financial statements is PPO, Inc., which represents physician private offices. Effective January 1, 2016, the operations of PPO will cease and reinstate within Columbus Regional Health Physicians, Inc. (CRHP); CRHP is blended component unit of the Hospital. During 2015, PPO renegotiated physician contracts and changed the physician compensation arrangements resulting in a purchase of certain operating assets, including accounts receivable.

The Hospital contributed $15,268,105 and $5,157,376 to related parties during 2015 and 2014, respectively. These contributions were made to SIHM related entities in support of operating losses and the physician compensation arrangements, incurred by PPO, among other entities.

Note 19: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation required the establishment of health insurance exchanges, which provides individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs may be substantially decreased. Each state's participation in an expanded Medicaid program is optional. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first $2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

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Independent Auditor's Report 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
Columbus Regional Hospital
Columbus, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Columbus Regional Hospital (Hospital), which comprise the balance sheet as of December 31, 2015 and the related statements of activities revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2016.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 determination of financial statement amounts. 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.

BKD, LLP

Indianapolis, Indiana
April 28, 2016