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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

February 10, 2009

Board of Directors
Columbus Regional Hospital
2400 East 17th Street
Columbus, Indiana 47201

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Columbus Regional Hospital, as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

Columbus Regional Hospital
A Component Unit of Bartholomew County

Accountants' Report and Financial Statements

December 31, 2007 and 2006

Columbus Regional Hospital
A Component Unit of Bartholomew County
December 31, 2007 and 2006

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Independent Accountants' Report

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited the accompanying balance sheet of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, as of December 31, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Columbus Regional Hospital as of and for the year ended December 31, 2006, were audited by other accountants whose report dated May 18, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Columbus Regional Hospital as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

April 24, 2008

Columbus Regional Hospital
A Component Unit of Bartholomew County
Management's Discussion and Analysis
December 31, 2007
(Unaudited)

Introduction

Columbus Regional Hospital (the Hospital or CRH) is a not-for-profit, county owned regional hospital located in Columbus, Indiana serving a ten-county region in southeastern Indiana. The Hospital has one of the highest home county market shares in the state, and the Hospital's ten-county market share is the largest market share of any hospital serving the region. Licensed for 325 beds and operating 231 beds, the Hospital has provided services to the following number of patients over the past three years:

Year	Inpatients	Outpatients	Total
2007	9,318	218,595	227,913
2006	9,605	199,695	209,300
2005	10,093	181,059	191,152

CRH measures its performance in five key pillar areas: people; service; quality and safety; growth and innovation; and financial performance. All are important measures, as CRH must balance the various indicators to ensure high quality patient care as it works towards its mission, *"To improve the health and well being of the people we serve."*

CRH was honored to be the winner of the Quest for Quality Prize from the American Hospital Association in 2007, the highest quality honor awarded annually by the hospital industry. This national award is recognition that the hospital's vision *"to be the best in the country at everything we do"* is evident by employees, physicians, and volunteers to provide the very best for patients. The Quest for Quality Prize honors the demonstration of leadership and innovation in quality, safety, and commitment to patient care. Specifically, hospitals are evaluated for their commitment to improving areas of safety, patient-centeredness, effectiveness, efficiency, timeliness, and equity. CRH is a role model for others in the hospital industry.

People

CRH recognizes the strategic importance of having a committed and satisfied workforce, and works to recruit and retain high performing staff. CRH's efforts have been recognized as being named one of the Best Places to Work in Indiana, the highest rated hospital on the list for two straight years (2006 and 2007). The Hospital scored in the top 95th percentile of over 300 hospitals surveyed for employee satisfaction as a recognized national best practice.

- Employee retention rates at CRH are better than industry average and are the best levels ever for the hospital, as are registered nurse retention rates also better than industry average.

Service

Service Excellence is a key area as the Hospital works for high patient satisfaction, as well as employee and physician satisfaction. CRH works with Press Ganey, who works with over 6,000 healthcare organizations across the country, to measure patient satisfaction. Satisfaction levels are at an all-time high for the Hospital, consistently above the 90th percentile in the country for inpatient and outpatient services. This attention to service excellence is the right thing to do for patients, as well as from a business perspective so that patients continue to prefer CRH for their healthcare needs. CRH has been recognized with a Fire Starter Award (2006) by the Studer Group, a national leader in healthcare service excellence, and has shared its service excellence successes at national conferences.

Quality and Safety

Columbus Regional Hospital ranks among the top 5% in the country for clinical quality based on the national CMS (Centers for Medicare and Medicaid Services) quality measures that all hospitals are required to report. In addition to this national quality ranking, CRH has received other recognition for its quality:

- VHA Leadership Award for Clinical Excellence in 2007 for critical care and heart care.
- Designated a JCAHO Primary Stroke Center, one of the first in Indiana to receive the designation (2004) and also receive re-designation (2007).
- Nationally accredited Chest Pain Center from the Chest Pain Society, and one of only seven hospitals in Indiana to have the higher Percutaneous Coronary Interventions (PCI) designation level.
- CRH is also the first hospital in Indiana with Magnet nursing accreditation by the American Nurses Credentialing Centers, a national recognition of nursing environment and delivery of high quality care.

Patient safety has always been the Hospital's top priority, and it researches the best practices in medicine to deliver evidence-based safe care. CRH is recognized as a mentor hospital for its best practices in clinical quality by the Institute for Healthcare Improvement, a national leader in healthcare quality and safety. CRH is an early adopter in the hospital industry to apply Lean and Six Sigma performance improvement methodology to a healthcare environment. This has resulted in improved processes and greater efficiencies in many areas including emergency care, medication dispensing, and surgical services.

Growth and Innovation

Medical technology is advancing at a rapid pace, and CRH is committed to using the latest technology to improve patient safety and outcomes. This commitment has resulted in receiving the Most Wired Innovator Award in 2007 for the second straight year, one of only three hospitals in the country to receive this annual honor from *Hospitals & Health Networks*, the official magazine from the American Hospital Association. The award recognizes hospitals for innovative technology and processes.

CRH is an innovator in new technology and specialized procedures including:

- **Lung Center** - CRH opened its Lung Center in 2007, which is one of only a few centers nationwide to offer an innovative approach to lung disease by providing the latest diagnostic testing, treatment, and disease management in one location for pulmonary care patients. The center uses the new superDimension inReach System to diagnose lung cancer at earlier stages and so treatment options can begin sooner, and CRH was one of the first hospitals in the country with this technology.
- **Joint & Spine Center** - CRH opened its Joint & Spine Center in 2007 to offer a new specialized approach for orthopedic care that combines advanced surgical techniques, with a program that emphasizes patient education, wellness, and socialization that maximizes patient recovery.
- **Digital Mammography** - specially designed digital detectors produce an image that can be displayed on a high-resolution computer monitor to help detect small calcifications and masses that may be signs of early breast cancer. Currently, less than 10% of mammography centers have digital technology.
- **New Integrated Minimally Invasive Surgical Suites** - CRH has updated its surgery suites in the past two years to offer state-of-the-art computer systems, high resolution cameras, and new surgical lights allowing surgeons to perform a broader range of minimally invasive surgeries.
- **Nurse Call Wireless Communication** - New technology offers an integrated system so that a patient can reach their lead nurse directly via a wireless device. CRH is among the first hospitals in the country to integrate the latest technologies into a unique wireless communication system that provides information to doctors, nurses, and other caregivers as quickly and efficiently as possible. Our use of this technology has been recognized with the Most Wired Innovator Award from the American Hospital Association, and has shared at national conferences on this innovation.
- **Chartmaxx - Document Imaging** - CRH has added technology in the past two years to manage patient records electronically.
- **Interventional Cardiology** - A new full-time interventional cardiologist joined CRH's medical staff in 2007, which has further enhanced the comprehensive level of 24/7 high quality cardiac care offered.

In 2007, CRH announced plans to begin design work to build a new pavilion to offer all private patient rooms and new Emergency Department. Construction will begin later in 2008 and is anticipated to be complete in 2011. Private patient rooms are becoming the standard in the hospital industry for patient quality, safety, and satisfaction.

Financial Performance

The Hospital continued in 2007, as in the past two years, to report solid operating performances. The operating margin for 2007 was 9% compared to 9% for 2006 and 8% for 2005, resulting from management's focus on controlling expenses and maintaining its market share position in its ten county service area. Key financial indicators for 2007 against which the Hospital benchmarks were favorable as well. Specifically, the Days Cash on Hand of 276 days was about 50% higher than the "A2" Rated Median of 190 days, and the Operating EBIDA at 17.9% was nearly twice the "A2" Rated Median of 9.7%.

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. Selected Financial and Statistical Data, as of and for the years ended December 31, are shown below. Certain reclassifications were made to 2006 and 2005 to comply with 2007 presentation.

Selected Financial Data and Statistics
(Dollars in Thousands)

	2007		2006		2005	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	\$ 191,686	100.0%	\$ 183,602	100.0%	\$ 173,294	100.0%
Salaries and benefits	90,770	47.4%	87,584	47.7%	84,547	48.8%
Supplies and drugs	33,469	17.5%	31,053	16.9%	28,754	16.6%
Purchased services and other operating expenses	33,130	17.5%	32,492	17.7%	29,593	17.1%
Depreciation and amortization	16,984	8.9%	16,269	8.9%	16,341	9.4%
Total expenses	<u>174,353</u>	91.0%	<u>167,398</u>	91.2%	<u>159,235</u>	91.9%
Income from operations	17,333	9%	16,204	9%	14,059	8%
Nonoperating income and (expense), net	<u>2,192</u>	1.1%	<u>2,590</u>	1.4%	<u>(2,320)</u>	-1.3%
Increase in net assets	<u>\$ 19,525</u>	10.2%	<u>\$ 18,794</u>	10.2%	<u>\$ 11,739</u>	6.8%
Cash Flow Data						
Cash provided by operating activities	\$ 31,307		\$ 27,212		\$ 26,421	
Cash used in financing activities	(26,787)		(18,766)		(21,300)	
Cash used in investing activities	(3,937)		(2,199)		(5,036)	
Financial Position						
Current assets	\$ 58,456		\$ 60,075		\$ 55,041	
Capital assets, net	84,662		81,262		85,371	
Other non-current assets	<u>121,980</u>		<u>108,272</u>		<u>99,056</u>	
Total assets	<u>\$ 265,098</u>		<u>\$ 249,609</u>		<u>\$ 239,468</u>	
Long-term debt, including current portion	\$ 73,544		\$ 76,863		\$ 80,221	
Other liabilities	<u>18,027</u>		<u>18,745</u>		<u>24,040</u>	
Total liabilities	<u>\$ 91,571</u>		<u>\$ 95,608</u>		<u>\$ 104,261</u>	
Unrestricted net assets	\$ 161,390		\$ 148,631		\$ 129,792	
Net assets invested in capital assets	11,118		4,398		5,150	
Restricted net assets	<u>1,019</u>		<u>972</u>		<u>265</u>	
Total net assets	<u>\$ 173,527</u>		<u>\$ 154,001</u>		<u>\$ 135,207</u>	
Days cash on hand	275.9		267.2		241.6	
Operating Data						
Number of beds (available for use)	231		215		215	
Inpatient discharges	9,318		9,605		10,093	
Average daily census	109		116		119	
Average length of stay	4.3		4.4		4.3	
Occupancy	49%		54%		55%	
Inpatient case mix	1.2985		1.2947		1.2233	
Outpatient visits	218,595		199,695		181,059	

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 payors, 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.

CRH 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 revenues from the Medicare and Medicaid programs have stayed about the same over the past three years increasing slightly in 2007 to 55.4% of gross revenues. Governmental reimbursement policies continue to limit or reduce the levels of payments from these programs.

The approximate percentages of patient revenues by payor are set forth below:

	2007	2006	2005
Medicare	45.5%	44.8%	44.6%
Medicaid	9.9%	10.0%	9.7%
Managed Care Plans	37.0%	37.3%	37.3%
Other	7.6%	7.9%	8.4%

Revenues for the year ended December 31, 2007, increased 4.4% to \$191.7 million from \$183.6 million in 2006. This compares to increases of revenues of 5.9% for 2006 and 5.3% for 2005. The revenue growth for the past three years can be attributed to increased outpatient volumes. The Hospital remains committed to its strategic focus on core secondary and tertiary level acute care services. In 2007, the Hospital continued focusing on emergency services allowing for improved processes and added patient services. Visits to the Hospital's Emergency Department for 2007 totaled 38,397, up 7% from 35,870 in 2006 and up 8.7% from 33,001 in 2005. During 2006, the Hospital sold CRH Home Services, which had become increasingly unprofitable due to the high cost of providing this service in an acute care hospital combined with unfavorable reimbursements from the major payors, Medicare and Medicaid. The sale was complete in August and factoring out this revenue in 2006 and 2005, the revenue increase for 2006 would be 6.9%.

Operating expenses increased 4.2% in 2007. The increase is primarily attributable to increases in staffing and supply costs associated with providing higher acuity services. However, this 4.2% increase in operating expenses was lower than the 5.1% increase experienced between 2006 and 2005 reflecting the Hospital's efforts at controlling costs and improving efficiencies throughout all departments.

Income from operations for 2007 totaled \$17.3 million, up from \$16.2 million for 2006 and \$14.1 million for 2005. Nonoperating revenues, consisting of mostly investment income, were down \$0.4 million in 2007 as a result of increased contributions to affiliates. Increase in net assets totaled \$19.5 million compared to \$18.8 million in 2006 and \$11.7 million in 2005.

Financial Position

Cash provided by operating activities totaled \$31 million in 2007, which was up slightly when compared to cash provided of \$27 million for 2006 and \$24 million in 2005. The increase in cash provided by operating activities in 2007 is primarily attributable to the fact that the Hospital received State Medicaid Disproportionate Share payments for two state fiscal years, a situation not replicated in 2006 or 2005. Days cash on hand increased to 275.9 days compared to 267.2 days in 2006 and 241.6 days in 2005. Capital expenditures for 2007 totaled \$20 million and included the purchase of a technology building late in the year at a cost of \$5.9 million. Excluding the cost of the technology building, regular capital expenditures have remained steady with totals ranging from \$12 to \$15 million for the years 2005-2007. As previously mentioned, the Hospital will begin a major construction project in 2008 with capital expenditures that are projected to total \$108 million over a three year period. At the end of 2007, construction in progress related to the building project consisted of architect fees that totaled \$1.4 million.

Total current assets for 2007 were \$58 million compared to \$60.0 million in 2006 and \$50.0 million in 2005. Other non-current assets were \$122.0 million for 2007 compared to \$108.3 million for 2006 and \$99.1 million for 2005. A summary of other non-current assets is presented in the table below:

Non-current assets (dollars in millions)	2007	2006	2005
Internally Designated Funds (net of current portion)	\$ 108.7	\$ 97.2	\$ 86.2
Funds held under a bond indenture agreement by trustee (net of current portion)	0.1	0.1	0.1
Other assets	13.2	11.0	12.8
Total non-current assets	<u>\$ 122.0</u>	<u>\$ 108.3</u>	<u>\$ 99.1</u>

The Hospital had \$73.5 million in long-term debt at December 31, 2007, compared to \$76.8 million for 2006 and \$80.2 million for 2005. Funding for regular capital projects was derived from cash flows from operations and funds reserved for capital acquisitions. During 2008, the Hospital expects to issue new long-term debt, which will be used to fund the major construction project beginning mid year 2008.

Economic Outlook

The outlook for Hospital volumes over the next three to five years continues to emphasize growth in outpatient care. Inpatient volumes are projected to remain flat with little or no growth. The Hospital's strategic plan initiatives involving physician integration and service and clinical excellence will be critical to maintaining and growing patient volumes. Competition from Indianapolis and surrounding geographic areas will demand the Hospital differentiates itself and provides the communities served with the services that are needed.

Federal and state lawmakers continue to influence the healthcare sector with legislative/regulatory changes. Current lawmakers' priorities include private markets for health insurance, pay for performance and price and quality transparency. Universal coverage debate is being driven by initiatives in several states. This debate is expected at the Federal level in a couple of years. The challenge for the healthcare providers is to stay informed and to act proactively as changes will happen quickly.

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. Questions about this report and requests for additional financial information should be directed to the Hospital's Administration by telephoning (812) 376-5205.

Columbus Regional Hospital
A Component Unit of Bartholomew County

Balance Sheets
December 31, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash and cash equivalents	\$ 15,639,406	\$ 17,841,513
Patient accounts receivable, less allowance for uncollectible accounts (\$5,389,272 in 2007 and \$5,946,682 in 2006)	25,594,023	25,395,451
Estimated third-party payor settlements	5,518,933	4,601,757
Other receivables	1,299,216	2,219,546
Inventories	3,214,809	3,350,987
Prepaid expenses	3,223,937	2,945,569
Restricted current assets limited as to use	3,965,300	3,720,357
Total current assets	58,455,624	60,075,180
Non-Current Cash and Investments		
Internally designated	108,703,785	97,204,194
Trustee-held funds, less current	137,493	111,376
Total non-current cash and investments	108,841,278	97,315,570
Capital Assets		
Plant and equipment	242,133,387	227,310,563
Less accumulated depreciation	161,504,088	149,359,741
	80,629,299	77,950,822
Land	1,554,235	1,404,035
Construction in progress	2,478,350	1,906,837
Capital assets, net	84,661,884	81,261,694
Intangible assets	58,175	159,558
Notes receivable, related party	5,651,188	3,680,933
Joint venture investments and other notes receivable	4,857,713	4,429,136
Unamortized bond issuance costs	2,572,033	2,687,031
Total assets	\$ 265,097,895	\$ 249,609,102

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Accounts payable	\$ 5,476,953	\$ 6,925,872
Salaries, wages and related liabilities	8,328,752	7,499,612
Accrued interest payable	770,157	684,209
Other accrued liabilities	2,346,376	2,447,517
Current portion of long-term debt	3,350,000	3,100,000
Total current liabilities	<u>20,272,238</u>	<u>20,657,210</u>
Long-Term Liabilities		
Long-term debt, less current maturities	70,193,883	73,763,441
Accrued pension cost	1,105,201	1,187,149
Total long-term liabilities	<u>71,299,084</u>	<u>74,950,590</u>
Total liabilities	<u>91,571,322</u>	<u>95,607,800</u>
Net Assets		
Unrestricted	161,389,450	148,631,268
Invested in capital assets, net of related debt	11,118,001	4,398,253
Restricted - expendable	1,019,122	971,781
Total net assets	<u>173,526,573</u>	<u>154,001,302</u>
Total liabilities and net assets	<u>\$ 265,097,895</u>	<u>\$ 249,609,102</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$8,214,795 in 2007 and \$6,872,775 in 2006	\$ 187,726,791	\$ 179,721,984
Other operating revenue	<u>3,958,969</u>	<u>3,879,960</u>
Total operating revenue	<u>191,685,760</u>	<u>183,601,944</u>
Operating Expenses		
Salaries and wages	70,208,123	67,814,006
Employee benefits	20,561,766	19,769,999
Fees	8,203,804	7,755,874
Supplies	33,468,606	31,053,453
Purchased services	23,133,247	22,996,024
Depreciation and amortization	16,983,956	16,269,306
Insurance	1,283,535	1,312,490
Other	<u>509,401</u>	<u>427,228</u>
Total operating expenses	<u>174,352,438</u>	<u>167,398,380</u>
Operating Income	<u>17,333,322</u>	<u>16,203,564</u>
Nonoperating Income (Expenses)		
Investment income, net	8,927,135	7,757,904
Interest expense	(3,362,341)	(3,398,156)
Contributions to related organizations	(2,739,438)	(931,811)
Other nonoperating expense	<u>(633,407)</u>	<u>(837,449)</u>
Total nonoperating income	<u>2,191,949</u>	<u>2,590,488</u>
Increase in Net Assets	19,525,271	18,794,052
Net Assets, Beginning of Year	<u>154,001,302</u>	<u>135,207,250</u>
Net Assets, End of Year	<u>\$ 173,526,573</u>	<u>\$ 154,001,302</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Operating Activities		
Cash received from patients and third-party payors	\$ 186,611,044	\$ 177,825,367
Cash payments to employees for services	(90,123,838)	(89,573,012)
Cash payments to suppliers for goods and services	(68,189,702)	(63,484,661)
Other cash received	4,538,134	3,097,370
Net cash provided by operating activities	32,835,638	27,865,064
Noncapital Financing Activity - contributions to related parties	(3,419,941)	(532,827)
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,100,000)	(3,150,000)
Interest paid on long-term debt	(3,495,952)	(3,526,563)
Acquisition and construction of capital assets	(20,274,074)	(12,168,158)
Proceeds from sales of capital assets	35,940	70,848
Capital contributions	47,096	8,033
Net cash used in financing activities	(26,786,990)	(18,765,840)
Investing Activities		
Investment income	8,258,239	8,703,657
Disbursements for investments	(571,649)	50,000
Proceeds from investment distribution	424,048	431,960
Disbursements for loans	(2,180,352)	(700,243)
Repayments of loans	310,564	887,712
Purchase of investments in assets limited as to use	(22,406,409)	(34,961,501)
Sale of investments in assets limited as to use	11,379,984	22,736,160
Net cash used in investing activities	(4,785,575)	(2,852,255)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,156,868)	5,714,142
Cash and Cash Equivalents at Beginning of Year	18,573,706	12,859,564
Cash and Cash Equivalents at End of Year	\$ 16,416,838	\$ 18,573,706
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 15,639,406	\$ 17,841,513
Cash and cash equivalents in assets limited as to use and non-current cash		
Internally designated	24,640	460
Held by trustee under bond indenture	752,792	731,733
Total cash and cash equivalents	\$ 16,416,838	\$ 18,573,706

Columbus Regional Hospital
A Component Unit of Bartholomew County
Statements of Cash Flows (Continued)
Years Ended December 31, 2007 and 2006

	2007	2006
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Income from operations	\$ 17,333,322	\$ 16,203,564
Investment earnings considered investing activity	(21,064)	(17,043)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	16,983,956	16,269,306
Provision for uncollectible accounts	8,214,795	6,872,775
Undistributed earnings in joint ventures	(320,101)	(191,189)
Change in assets and liabilities		
Receivables, net	(8,413,367)	(8,378,623)
Other assets	778,141	(1,132,395)
Accounts payable and accrued expenses	(1,720,044)	(1,761,331)
	\$ 32,835,638	\$ 27,865,064
Net cash provided by operating activities		

Columbus Regional Hospital
A Component Unit of Bartholomew County
Notes to Financial Statements
December 31, 2007 and 2006

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 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.

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 and liabilities 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. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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, 2007 and 2006, cash equivalents consisted primarily of money market accounts with banks.

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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 and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U. S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investment in certain joint venture activity 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.

Inventories

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

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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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. 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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

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 Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, 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 expendable net assets are 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 assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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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 has not designated the interest rate swap agreement as a hedging instrument under the provision of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result, the agreement is recorded at its fair value in the balance sheet. The net cash payments or receipts under the interest rate swap agreements are recorded as an increase or decrease to interest expense. Changes in the fair value of the interest rate swap agreements are included in investment income in the accompanying statement of revenues, expenses and changes in net assets.

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications and Report Disclosures

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation. The reclassifications had no effect on the total net assets and were primarily retroactive modifications to footnotes disclosures.

Note 2: 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.

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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 DSH payments. The amounts of these additional DSH funds 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. DSH payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determine that the funds will be received. The Hospital recognized \$10,724,320 and \$5,360,849 of net patient service revenue related to the DSH program for the years ended December 31, 2007 and 2006 respectively. The Hospital recognized receivables from this program in the amount of \$6,682,520 and \$5,159,131 at December 31, 2007 and 2006, respectively, for various Indiana state fiscal years, which ends June 30 each year.

In May 2007, the Centers for Medicare and Medicaid issued a final ruling that may change the State of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, Congress issued a one year moratorium on the ruling, which is scheduled to expire in May 2008. It is unknown if the moratorium will be extended, or what the financial implications to the DSH program in the event moratorium is not extended.

Effective January 1, 2008, the State of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future DSH payments may also be negatively affected.

Approximately 36.1% and 35.8% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2007 and 2006, 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 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 2007 net patient service revenue increased approximately \$5,800,000 due to removal of previously estimated amounts that are no longer necessary as a result of final settlements. The 2006 net patient service revenue also increased approximately \$2,398,000 due to final settlements in excess of amounts previously estimated.

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

	<u>2007</u>	<u>2006</u>
Gross patient charges		
Inpatients	\$ 165,933,936	\$ 160,045,570
Outpatients	189,022,866	171,955,960
	<u>354,956,802</u>	<u>332,001,530</u>
Charity care charges foregone	(6,433,875)	(6,096,833)
Provision for bad debt	(8,214,795)	(6,872,775)
Contractual allowances	<u>(152,581,341)</u>	<u>(139,309,938)</u>
Net patient service revenue	<u>\$ 187,726,791</u>	<u>\$ 179,721,984</u>

Note 3: 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 charge foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2007 and 2006 (unaudited), charges excluded from revenue under its charity policy were \$6,433,875 and \$6,096,833, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$2,025,708 for 2007 and \$2,359,033 for 2006 (unaudited).

Note 4: 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 are considered collateralized.

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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, 2007 and 2006, the Hospital had the following investments, all of which mature within one year:

	Fair Value	
	2007	2006
Money market account	\$ 752,793	\$ 731,733
Interest receivable	44,054	22,388
Mutual funds	111,985,091	100,281,346
	\$ 112,781,938	\$ 101,035,467

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, 2007 and 2006, 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 non-marketable 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, 2007 and 2006 are held by the counterparties in other than the Hospital's name.

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Concentration of Credit Risk - The Hospital limits the amount that may be invested in any one issuer to 5% of the portfolio, with the exception of U. S. Government securities. At December 31, 2007 and 2006, the Hospital's investment in mutual funds consisted of:

	2007	2006
Frontegra Columbus Core Plus fixed income fund	41%	43%
PIMCO Low Duration fund	17%	18%
Touchstone Sands Capital Institutional Growth fund	11%	9%
Vanguard Institutional Index fund	10%	10%
Mainstay ICAP Select Equity fund	10%	11%
Other funds	11%	9%
	100%	100%

Summary of Carrying Values

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

	2007	2006
Carrying value		
Deposits	\$ 15,664,046	\$ 17,841,973
Investments	112,781,938	101,035,467
	\$ 128,445,984	\$ 118,877,440
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 15,639,406	\$ 17,841,513
Current assets limited as to use	3,965,300	3,720,357
Noncurrent assets limited as to use	108,841,278	97,315,570
	\$ 128,445,984	\$ 118,877,440

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Investment Income

Investment income for the years ended December 31, 2007 and 2006 consisted of:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 8,258,841	\$ 8,663,204
Net increase (decrease) in fair value of investments	1,525,751	(1,269,237)
Net increase (decrease) in fair value of interest rate swap	(857,457)	363,937
	<u>\$ 8,927,135</u>	<u>\$ 7,757,904</u>

Note 5: 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, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	23.3%	27.7%
Medicaid	11.3%	10.2%
Other third-party payers	44.3%	48.0%
Individual patients	21.1%	14.1%
	<u>100.0%</u>	<u>100.0%</u>

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Note 6: 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 is as follows:

Company Name - Description	Ownership %	2007 Investment Amount	2006 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 811,621	\$ 849,123
Columbus Surgery Center LLC - Ambulatory Surgery	50.00%	1,423,467	1,381,986
Columbus Urgent Care Center JT Venture - Immediate Care Center	50.00%	627,150	716,178
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	-
Jennings County Community Health Partnership LLC - Hospital	50.00%	-	18,898
Health Point LLC - Health Maintenance Organization	19.99%	268,754	268,754
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	181,921
United Hospital Services, LLC - Laundry Services	4.35%	65,680	-
Total		<u>\$ 3,828,593</u>	<u>\$ 3,416,860</u>

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Note 8: 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 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 during 2007 of \$117,000. 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).

On February 1, 2002, the Insurance Commissioner of the Commonwealth of Pennsylvania placed PHICO into liquidation. Prior to February 1, 2002, PHICO served as the Hospital's malpractice insurance carrier. For those claims incurred prior to February 1, 2002, the Hospital has exposure to the potential losses that may result from those claims, up to \$250,000 per claim. Approximately \$145,000 and \$660,000 in claims and related expenses were paid out during 2007 and 2006, respectively. As of December 31, 2007, approximately \$756,000 is accrued toward the payment of the anticipated incurred PHICO claims. Management has accrued an estimate of the remaining potential losses and related expenses and does not expect that the amount that will be finally settled will be material to the financial position of the Hospital.

Activity in the Hospital's accrual for malpractice claims during 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 816,000	\$ 1,353,000
Changes in estimate for potential claims	185,000	123,000
Claims and expenses paid	<u>(145,000)</u>	<u>(660,000)</u>
Balance, end of year	<u>\$ 856,000</u>	<u>\$ 816,000</u>

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Note 9: Employee Health 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 of \$185,000. Commercial stop-loss insurance coverage is purchased for 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 during 2007 and 2006 is summarized as follows:

	2007	2006
Balance, beginning of year	\$ 1,427,000	\$ 2,175,000
Current year claims incurred and changes in estimates for claims incurred in prior years	8,488,172	8,350,148
Claims and expenses paid	(8,657,172)	(9,098,148)
Balance, end of year	\$ 1,258,000	\$ 1,427,000

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2007 and 2006:

	Beginning Balance	Additions	2007 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds - Series 2003	\$ 52,000,000	\$ -	\$ 3,100,000	\$ 48,900,000	\$ 3,350,000
Indiana Health Facility Financing Authority Bonds - Series 1993	24,863,441	-	219,558	24,643,883	-
Total long-term debt	\$ 76,863,441	\$ -	\$ 3,319,558	\$ 73,543,883	\$ 3,350,000

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	Beginning Balance	2006		Ending Balance	Current Portion
		Additions	Deductions		
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds - Series 2003	\$ 55,150,000	\$ -	\$ 3,150,000	\$ 52,000,000	\$ 3,100,000
Indiana Health Facility Financing Authority Bonds - Series 1993	25,071,377	-	207,936	24,863,441	-
Total long-term debt	<u>\$ 80,221,377</u>	<u>\$ -</u>	<u>\$ 3,357,936</u>	<u>\$ 76,863,441</u>	<u>\$ 3,100,000</u>

Revenue Bonds Payable

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 1993, payable August 2015 in the amount of \$23,440,000 (plus unamortized bond issue premium at December 31, 2007 and 2006 of \$1,203,883 and \$1,423,441), are subject to mandatory redemption through operation of a sinking fund commencing August 15, 2009. Interest (payable semiannually) at 7.00%.

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, 2004, a portion of the Series 1993 Bonds were 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, limited additional borrowings, and require compliance with other restrictive covenants.

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 2003 (Auction Rate Securities) is payable in annual principal payments through August 1, 2022. Interest is variable, determined and paid generally every 35 days at auction.

In August 2003, the Hospital issued its note to the IHFFA securing the IHFFA Hospital Revenue Refunding Bonds, Series 2003, tax-exempt insured auction rate securities in the amount of \$61,000,000. The proceeds from the bonds were used to acquire certain healthcare property, refund a portion of the Series 1993 Bonds, and also refund the entire Series 2002 Bonds.

The interest rates determined on the 2003 bonds are determined at auction every 35 days. In the event of an auction fails or does not complete, the trust indenture provides that the bonds yield interest at 150% of the One Month London Interbank Bank Offered Rate (LIBOR) as long as the bonds maintain a rating of A/A/A or higher. In the event the bond's rating drops below A/A/A, the percentage of LIBOR increases as defined in the trust indenture. The maximum interest rate imposed under the bond issue is 20%.

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Subsequent to year-end, the auction rates initially failed then completed at the stated 150% of LIBOR for the respective weeks.

The debt service requirements (excluding bond premium accretion) as of December 31, 2007, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	\$ 6,406,397	\$ 3,350,000	\$ 3,056,397
2009	9,030,185	6,010,000	3,020,185
2010	6,442,527	3,845,000	2,597,527
2011	6,431,038	3,950,000	2,481,038
2012	6,435,602	4,320,000	2,115,602
2013 - 2017	28,124,572	21,165,000	6,959,572
2018 - 2022	32,496,761	29,700,000	2,796,761
	<u>\$ 95,367,082</u>	<u>\$ 72,340,000</u>	<u>\$ 23,027,082</u>

The Hospital has a line of credit of \$3,000,000 maturing on December 17, 2008. At December 31, 2007 and 2006, there were no borrowing on the line.

Note 11: Interest Rate Swap Agreement

Objective of the Interest Rate Swap

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 an interest rate swap agreement for its long-term note payable to bank. The intention of the swap is to effectively change the Hospital's variable interest rate on this note to a synthetic fixed rate.

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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 table below:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2007
\$ 15,040,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% LIBOR	\$ (247,053)
<u>16,920,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% LIBOR + .33%	<u>70,804</u>
<u>\$ 31,960,000</u>						<u>\$ (176,249)</u>

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2006
\$ 16,000,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% LIBOR	\$ 156,930
<u>17,995,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% LIBOR + .33%	<u>532,140</u>
<u>\$ 33,995,000</u>						<u>\$ 689,070</u>

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 about relevant future market conditions. The fair values of the agreements are recognized in the Hospital's financial statements.

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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 Financial Security Assurance, which was rated AAA by Standards & Poor's and Aaa by Moody's Investors Service as of December 31, 2007 and 2006.

Basis Risk

The swap exposes 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.

Note 12: Restricted and Designated Net Assets

At December 31, 2007 and 2006, restricted expendable net assets were available for the following purposes:

	<u>2007</u>	<u>2006</u>
Debt service	\$ 752,793	\$ 731,733
Capital acquisitions	261,337	226,470
Specific operating activities	<u>4,992</u>	<u>13,578</u>
Total restricted expendable net assets	<u>\$ 1,019,122</u>	<u>\$ 971,781</u>

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At December 31, 2007 and 2006, approximately \$109 million and \$97 million, respectively, of unrestricted net assets have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion, later use these net assets for other purposes.

Note 13: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2014. Total rental expense in 2007 and 2006 for all operating leases was approximately \$852,000 and \$960,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2007 that have initial or remaining lease terms in excess of one year:

2008	\$ 559,000
2009	533,000
2010	453,000
2011	423,000
2012	385,000
2013 - 2017	<u>443,000</u>
Future minimum lease payments	<u><u>\$ 2,796,000</u></u>

Note 14: Retirement Plans

Pension Plan:

Plan Description

The Hospital has a defined-benefit pension plan as authorized by IC 16-22-3-11, covering substantially all employees of the Hospital. 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.

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Notes to Financial Statements
December 31, 2007 and 2006

Funding Policy

The Hospital is required to contribute at an actuarially determined rate; the rate was 3.68% and 3.81% of annual covered payroll for 2007 and 2006, respectively. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2007 and 2006 were \$2,609,450 and \$2,525,470, respectively, which equaled the required contributions for each year.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation of the plan for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Annual required contribution	\$ 2,609,450	\$ 2,525,470
Interest on net pension obligation	94,972	102,014
Adjustment to annual required contribution	(176,920)	(190,038)
Annual pension cost	2,527,502	2,437,446
Contributions made	2,609,450	2,525,470
Decrease in net pension obligation	(81,948)	(88,024)
Net pension obligation, beginning of year	1,187,149	1,275,173
Net pension obligation, end of year	\$ 1,105,201	\$ 1,187,149

Actuarial valuation date: January 1, 2007
Actuarial cost method: Projected unit credit
Amortization method: Level dollar open
Amortization period: Ten years
Asset valuation method: Market related value

Actuarial Assumptions

Investment rate of return	8.00%
Projected future salary increases	3.00% plus merit and promotional percentage increases based on age or years of service

Columbus Regional Hospital
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Notes to Financial Statements

December 31, 2007 and 2006

Three-Year Trend Information

Year Ended December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 2,191,842	104.3%	\$ 1,275,173
2006	2,437,446	103.6%	1,187,149
2007	2,527,502	103.2%	1,105,201

Funded Status

As of January 1, 2007, the most recent actuarial valuation date, the plan was 95.9% funded. The actuarial accrued liability for benefits was \$33.1 million and the actuarial value of assets was \$31.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$70.9 million and the ratio of UAAL to the covered payroll was 2%.

Defined Contribution Plan:

The Hospital also has a defined-contribution plan under Internal Revenue Code section 401(a). The Columbus Regional Hospital Employee Savings Plan covers substantially all employees who have elected to participate in the tax sheltered annuity plan. An employee who contributes from 1% to 3% into a tax sheltered annuity plan will receive a matching contribution under the savings plan of .50% to 1%. The Hospital, at its sole discretion, may also contribute a discretionary contribution determined by the Board of Trustees annually. Pension expense under this plan for 2007 and 2006 was \$439,152 and \$392,946, respectively.

Note 15: Commitments and Contingencies

Commitments

The Board of Trustees on January 30, 2008, authorized and approved for the Hospital to spend \$108 million for construction of a new pavilion to add private patient rooms and to build a new emergency department. The project will be paid through a combination of savings the Hospital has reserved for future construction, along with funds from conventional Hospital financing and ongoing operations.

As of December 31, 2007, the Hospital had material commitments for acquisition of capital assets totaling approximately \$16.4 million.

Columbus Regional Hospital
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Notes to Financial Statements
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The Hospital, along with two other hospitals, has 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 who 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 prorata guarantee is \$425,000. No amount has been drawn on this line of credit.

Investigation

The Hospital is the subject of an investigation regarding specific third-party payer program billing issues. Management believes the Hospital's medical records fully support the codes used and billings submitted and intends to vigorously defend the Hospital should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss 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.

Columbus Regional Hospital
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Notes to Financial Statements
December 31, 2007 and 2006

Note 16: Related Party Transactions

The Hospital is related to several operating entities, which do not require consolidation 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	2007	2006
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	\$ 4,238,268	\$ 4,094,949
Rent expense	218,267	212,009
Insurance expense	580,541	404,274
Note receivable	5,651,188	3,680,933
Contributions to related organizations	2,099,421	398,984
Investment income	287,159	294,725
Miscellaneous income	443,481	518,518
Notes receivable due from SIHM are made up of the following:		
Note due on demand, interest paid at prime	\$ 210,881	\$ 227,634
Note due on demand, interest paid at prime plus 1%	45,313	158,305
Long-term note due January 1, 2009, interest of 4%	3,294,994	3,294,994
Interest free long-term note due May 1, 2007	2,100,000	-
	<u>\$ 5,651,188</u>	<u>\$ 3,680,933</u>
Columbus Regional Hospital Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 640,017	\$ 532,827
Contributions received from the Foundation	61,534	54,693
Other receivables	38,965	35,004
Hospice of South Central Indiana, Inc.		
Hospital purchases services		
Operating expenses	60,000	60,000
Miscellaneous sales to Hospice	114,856	77,672
Other receivables	109,097	158,298

**Required Supplemental Information
(Unaudited)**

Columbus Regional Hospital
A Component Unit of Bartholomew County
Required Supplementary Pension Plan Information
December 31, 2007
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
1/1/2005	\$ 26,966,939	\$ 28,700,413	\$ 1,733,474	94.0%	\$ 61,677,932	2.8%
1/1/2006	29,507,853	31,575,284	2,067,431	93.5%	66,349,146	3.1%
1/1/2007	31,704,608	33,053,543	1,348,935	95.9%	70,888,318	1.9%

Schedule of Employer Contributions

Year Ended December 31	Annual Pension Cost (APC)	Annual Required Contribution (ARC)	Amount Contributed	Percentage of ARC Contributed	Net Pension Obligation
2005	\$ 2,191,842	\$ 2,286,393	\$ 2,286,393	100%	\$ 1,275,173
2006	2,437,446	2,525,470	2,525,470	100%	1,187,149
2007	2,527,502	2,609,450	2,609,450	100%	1,105,201