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March 28, 2012

Board of Directors
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, 2010 to December 31, 2010. 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 the Columbus Regional Hospital, as of December 31, 2010 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, Indiana

Accountants' Report and Financial Statements

December 31, 2010 and 2009

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2010 and 2009

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited the accompanying balance sheets of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2010 and 2009, and changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, in 2010, the Hospital changed its method of accounting for derivative instruments by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2011, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and pension plan 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

May 2, 2011

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2010
(Unaudited)

Introduction

Columbus Regional Hospital (Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a ten county region in southeastern Indiana. The Hospital's commitment to serving the community and being at the forefront of quality patient care is recognized at the state and national levels, including the winner of the American Hospital Association's Quest for Quality Prize in 2007, the highest quality honor awarded by the hospital industry. The Hospital has been named as a Best Place to Work in Indiana for six straight years by the Indiana Chamber of Commerce and achieved Indiana's first Magnet designated hospital for outstanding nursing care.

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 of any hospital serving the region that is situated between Indianapolis, Louisville and Cincinnati. The Hospital is a county-owned hospital licensed for 325 beds and operating 210 beds. The Hospital has provided services to the following number of patients over the past three years:

Year	Inpatients	Outpatients	Total
2010	8,519	233,255	241,774
2009	9,674	235,151	244,825
2008	6,282	197,464	203,746

The Hospital uses the balanced scorecard methodology to measure its performance in five key pillar areas: people; service; quality and safety; growth and innovation; and financial performance. All are important measures, as the Hospital 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."*

Innovative, Nationally Recognized Care

The Hospital is recognized nationally as a top performing hospital and a benchmark for others in the healthcare industry.

The American Nurses Association (ANA) recognized the Hospital in early 2010 with the Outstanding Nursing Quality Award, one of only six hospitals nationwide recognized, which included Johns Hopkins Hospital and Poudre Valley Hospital among the recipients. The Hospital was recognized for high quality nursing care and outstanding patient outcomes. The award-winning hospitals are among more than 1,500 hospitals that participate in ANA's National Database of Nursing Quality Indicators (NDNQI), the nation's most comprehensive database of nursing-care outcomes measures.

The Hospital 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.

Columbus Regional Hospital will open an Innovation Center and state-of-the-art Simulation Lab in summer 2011. The dedicated space for innovation will accelerate and expand patient care excellence activities by synthesizing Six Sigma and Lean process improvement work, nursing and physician-led quality and safety projects, library and education resources, simulation learning, and innovation testing and practice space. The Innovation Center will be a place where the Hospital develops and adopts innovations that result in smarter healthcare to give patients the best value. Smart healthcare means the highest quality, safest and most affordable care before, during and after people become patients at the Hospital. A high-fidelity Simulation Lab within the Innovation Center will reflect various in-hospital settings including a patient room, operating room and emergency care areas, to develop, test and rapidly adopt clinical best practices and innovations. The Hospital will be a national model for community hospitals in how innovation and simulation can be used with Lean and Six Sigma methods. The Hospital has realized over $18 million in financial improvements since introducing Lean and Six Sigma a few years ago.

Renewing Excellence in Challenging Times

Columbus Regional Hospital reopened in October 2008 after a five-month closure due to the impact of a damaging flood. On June 7, 2008, the Hospital was damaged by record flooding and storms that impacted many areas across Columbus, Indiana when the nearby Haw Creek flooded 12 inches above the 500-year flood level. The Hospital safely evacuated 157 patients within three hours. The basement was completely flooded up to 12 feet, and flood waters reached the first floor of the Hospital building with 6 - 8 inches of water. Flooding destroyed the Hospital's basement containing vital information services and operational capabilities including laboratory, pharmacy, electrical/mechanical systems and sterilizing processing, with damage totaling $172 million.

The Hospital's commitment to its patients, employees and physicians is so ingrained in its culture that when record flooding forced the Hospital to close, the Hospital remained steadfast in its commitment to expand access and availability of healthcare services. Motivated by their collective pursuit to set the highest standard for excellence and commitment to one another and their community, the Hospital employees at every level worked tirelessly for five months to restore and reopen the Hospital while continuing to provide emergency services and outpatient care at interim locations throughout the community.

The Hospital reopened its facilities in phases, with acute care services reopening in October 2008, the all new laboratory and pharmacy opened in its new permanent locations in April 2009, the restored cafeteria in May 2010, and the final facility reconstruction to be complete in May 2011 when the basement is complete with the new Innovation Center. The FEMA-approved flood mitigation long-term project will be complete in 2012 to further protect the facility. The Hospital has received insurance proceeds and been awarded grants from FEMA and other sources totaling $133 million for flood recovery.

The Hospital represented caring, strength and inspiration in the face of devastation and helped a community rebuild.

Business Strategy - Balanced Scorecard Approach

The Hospital uses the balanced scorecard methodology to measure its performance in five key pillar areas which are the Hospital's critical success factors: people; service; quality and safety; growth and innovation; and financial performance.

Best People

The Hospital recognizes the strategic importance of having a committed and satisfied workforce, and works to recruit and retain high performing staff. The Hospital's efforts have been recognized as being named one of the Best Places to Work in Indiana for six straight years. The Hospital's Senior Executive Team received the Health Leaders Media Top Leadership Team in Healthcare award in 2010. This national award program recognizes outstanding teamwork in healthcare organizations. The Hospital was named to the national Modern Healthcare's 100 Best Places to Work in Healthcare in 2009, rating in the top half on the list. Employee retention rates at the Hospital are better than industry average, as are registered nurse retention rates.

Service Excellence

Service Excellence is a key area as the Hospital works for high patient satisfaction, as well as strong employee and physician satisfaction. The Hospital partners with Press Ganey, who works with over 6,000 healthcare organizations across the country, to measure patient satisfaction. The Hospital's work with Lean and Six Sigma to provide better service through streamlined processes has been focused on laboratory, imaging, registration and cardiac cath services. Process standardization is a focus across all direct care and support services at the Hospital in 2011. This attention to service excellence is the right thing to do for patients, as well as from a business objective so that patients continue to prefer the Hospital for their healthcare needs.

Quality and Safety Performance

The Hospital received full re-accreditation for three years from the Healthcare Facilities Accreditation Program (HFAP) in 2009. This accreditation came after the Hospital reopened after having been closed for five months due to flood damage. The HFAP surveyors noted that the pursuit of excellence and the culture of quality and service are pervasive throughout the Hospital. The Hospital has received other recognition for its quality, among those:

- The Hospital was named a 2010 HealthGrades Patient Safety Excellence Award recipient, indicating that the Hospital's patient safety ratings are in the top 5% of U.S. hospitals by HealthGrades, the leading independent healthcare ratings organization.
- American Nurses Association's Outstanding Nursing Quality Award in 2010, one of only six hospitals nationwide recognized for high quality nursing care and outstanding patient outcomes.
- The Hospital's Joint & Spine Center was designated in 2010 as a Blue Distinction Center for Knee and Hip Replacement and also a Blue Distinction Center for Spine Surgery. The Blue Distinction Center by the Blue Cross and Blue Shield Association recognizes hospitals nationally for excellent clinical quality. The Hospital is the first Indiana hospital to receive the Blue Distinction for Knee and Hip Replacement and for Spine Surgery.

- The Bariatric Center was named an American Society for Metabolic and Bariatric Surgery (ASMBS) Bariatric Surgery Center of Excellence. The designation recognizes surgical programs with a demonstrated track record of favorable outcomes in bariatric surgery.
- Columbus Regional Hospital was awarded the Silver Lifeline Performance Achievement Award from the American Heart Association for emergency cardiac care. To achieve this designation, a hospital must demonstrate 12 consecutive months of achieving greater than 85 percent in nine performance indicators related to STEMI/heart attack care for patients.
- Designated a JCAHO Primary Stroke Center, one of the first in Indiana to receive the designation (2004) and also receive re-designation in 2007 and 2009.
- 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, achieving re-designation in 2010.
- Magnet nursing designation by the American Nurses Credentialing Centers, a national recognition of nursing environment and delivery of high quality care. The Hospital was the first hospital in Indiana to receive the accreditation (2003) and the first in the state to achieve re-accreditation (2008).
- VHA Leadership Award for Clinical Excellence in 2008 for critical care and heart care.

Patient safety has always been the Hospital's top priority, and the Hospital researches the best practices in medicine to deliver evidence-based safe care. The Hospital 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. The Hospital is an early adopter in the hospital industry to apply Lean and Six Sigma performance improvement methodology to a healthcare environment. In addition to over $18 million in financial improvement realized, this has resulted in improved processes and greater efficiencies in many areas including emergency care, medication dispensing and surgical services.

Focus on Growth and Innovation

The Hospital is committed to using the latest technology and innovation to improve patient safety and outcomes. The Hospital is investing nearly $25 million to implement an all-new information technology system across the hospital in mid-2012. Some examples of innovation and growth at the Hospital include:

- **Lung Institute -** The Hospital opened its Lung Institute 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 Hospital was one of the first hospitals in the country to use the new superDimension inReach System to diagnose lung cancer at earlier stages and begin treatment options sooner. The Hospital completed the first ever Bronchial Thermoplasty procedure in Indiana, and the third procedure performed in the United States since the device passed FDA approval in early May of 2010. The Alair Bronchial Thermoplasty System is a new treatment for severe persistent asthma in patients 18 years and older whose asthma is not well controlled with inhaled corticosteroids.

- **All New Radiology Diagnostic Technology -** The Hospital invested in all new radiology diagnostic technology to replace equipment damaged in the June 2008 flood. This all new suite of technology provides faster scan times and higher quality images and includes: 64-slice CT scan, new MRI, 16-slice CT scan, Digital X-Ray, and PET Scan. Imaging/Radiology Services at the Hospital earned accreditations in computed tomography (CT) and ultrasound after an extensive review by the American College of Radiology. Through these accreditations, the Hospital was also recognized as using "Image Gently" CT protocols. The ACR gold seal of accreditation represents the highest level of image quality and patient safety.

- **Interventional Cardiology Technology -** The Hospital opened an all-new cardiac catheterization laboratory suite in 2009 featuring new cardiac and vascular catheterization equipment.

- The Hospital joined Regenstrief Institute's Indiana Network for Patient Care, the nation's largest health information exchange, in 2010. The Hospital joined more than 65 hospitals, long-term care facilities and other healthcare providers in a statewide network that allows physicians to securely access necessary information to make decisions critical to patient care.

Focus on Finance

During 2010, the Hospital's financial statements continued the bumpy journey of recovery from the catastrophic flood of June 7, 2008. The balance sheet maintained the positive trend of increasing cash, as the December 31, 2010 days cash on hand was up 51 days from 2009 and up 210 days from 2008. Income from operations for 2010 decreased to $5.5 million due to changes in patient volumes related to work focused on reducing inappropriate admissions and readmissions. Capital expenditures continued in 2010 for the flood restoration and renovation of the basement as dietary and central processing services returned to their basement home and construction began for the innovation center and simulation lab to also be located in the basement.

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:

Selected Financial Data and Statistics
(Dollars in Thousands)

	2010 Amount	2010 Ratio	2009 (Restated) Amount	2009 (Restated) Ratio	2008 Amount	2008 Ratio
Summary of Operations						
Revenues	$ 189,619	100.0%	$ 196,781	100.0%	$ 145,007	100.0%
Salaries and benefits	95,445	50.3%	98,940	50.3%	95,105	65.6%
Supplies and drugs	33,920	17.9%	34,895	17.7%	24,987	17.2%
Purchased services and other operating expenses	37,417	19.7%	35,975	18.3%	32,832	22.6%
Depreciation and amortization	17,326	9.1%	16,103	8.2%	15,037	10.4%
Total expenses	184,108	97.1%	185,913	94.5%	167,961	115.8%
Income (loss) from operations	5,511	2.9%	10,868	5.5%	(22,954)	-15.8%
Nonoperating income (expense), net	5,642	3.0%	15,774	8.0%	(11,523)	-7.9%
Capital grants	1,488	0.8%	44,309	22.5%	33,331	23.0%
Extraordinary items	-	0.0%	(520)	-0.3%	(32,698)	-22.5%
Increase (decrease) in net assets	$ 12,641	6.7%	$ 70,431	35.8%	$ (33,844)	-23.3%
Cash Flow Data						
Cash provided by operating activities	$ 23,425		$ 12,322		$ 13,867	
Cash provided by noncapital activiites	(3,202)		10,086		1,672	
Cash provided by (used in) financing activities	(5,614)		10,459		(57,237)	
Cash provided by (used in) investing activities	(7,542)		10,759		29,404	
Financial Position						
Current assets	$ 63,867		$ 73,336		$ 76,453	
Capital assets, net	127,345		129,394		119,219	
Other noncurrent assets	124,002		103,566		75,500	
Total assets	$ 315,214		$ 306,296		$ 271,172	
Long-term debt, including current portion	$ 58,994		$ 62,792		$ 69,961	
Other liabilities	29,859		29,783		57,920	
Total liabilities	$ 88,853		$ 92,575		$ 127,881	
Unrestricted net assets	$ 156,052		$ 145,185		$ 91,934	
Net assets invested in capital assets	68,351		66,602		49,258	
Restricted net assets	1,959		1,934		2,099	
Total net assets	$ 226,362		$ 213,721		$ 143,291	
Days cash on hand	277.9		226.5		68.3	
Operating Data						
Number of beds (available for use)	210		210		202	
Inpatient discharges	8,519		9,674		6,282	
Average daily census	91		107		114	
Average length of stay	3.9		4.0		4.1	
Occupancy	43%		50%		50%	
Inpatient case mix	1.4039		1.3308		1.2773	
Outpatient visits	233,255		235,151		197,464	

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 program are trending steady increasing only a slight 2% since 2007. Gross patient revenues from the Medicaid program are trending upward and have increased 11% since 2007. Governmental reimbursement policies continue to limit or reduce the levels of payments from these programs.

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

	2010	2009	2008
Medicare	46.5%	48.4%	46.7%
Medicaid	11.0%	10.2%	9.3%
Managed care plans	33.5%	33.5%	35.6%
Other	9.0%	7.9%	8.4%

Revenues for the year ended December 31, 2010 decreased 3.60% to $189.6 million from $196.8 million in 2009 and when compared to 2008, the flood year when the Hospital was closed from June 7, 2008 to October 26, 2008, revenues were up 30.8%. Revenues for 2010 were impacted negatively by decreased inpatient volumes, but this was partially offset by revenue increases due to an increased overall casemix index, a measurement of patient acuity. Inpatient discharges for 2010 were down 11.9% from the number of inpatient discharges for 2009 and up 35.6% over inpatient discharges for 2008. Outpatient volumes in 2010 were down less than 1% when compared to 2009 outpatient volumes and were up 18.1% when compared to 2008 outpatient volumes. The Hospital continues to focus resources on emergency services, the Hospital's front door to the community. The Emergency Department (ED) was damaged in the 2008 flood and was reopened in less than two months. ED visits for 2010 totaled 40,443, which were down slightly when compared to 2009 visits of 40,599 and were up 20% when compared to 2008 visits of 33,622.

Total operating expenses decreased 1% in 2010 to $184.1 million from $185.9 million in 2009. Salaries and benefits and supplies decreased 3.5% and 2.8%, respectively. Purchased services and depreciation were up 4.0% and 7.6%, respectively. The decrease in salaries and wages resulted from a decrease in the number of full time equivalents (FTEs). FTEs for 2010 totaled 1,341 compared to 1,436 in 2009 and 1,458 in 2008. Operating expenses for 2009 and 2008 increased (decreased) 10.7% and (3.7) %, respectively, over the prior year. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process improvement tools.

Income from operations for 2010 totaled $5.5 million down when compared to $10.9 million for 2009 and up when compared to a loss of $(23.0) million for 2008. Nonoperating income for 2010 totaled $5.6 million, which included investment gains and interest expense net of noncapital grant revenues. Nonoperating income (loss) for 2009 and 2008 consisting mostly of investment income (losses) totaled $15.8 million and $(11.5) million, respectively. Increase in net assets for 2010 totaled $12.6 million compared to increases (decreases) in net assets that totaled $70.4 million for 2009 and $(33.8) million in 2008.

Financial Position

Cash provided by operating activities in 2010 totaled $23 million. This compares to cash provided by operating activities of $12 million in 2009 and $14 million in 2008. The increase in the amount of cash provided from operating activities in 2010 continues to be related to the 2008 flood. At the end of 2008, accounts payable had increased significantly and during 2009, cash provided by operations was used to reduce those accounts payable that had increased due to the flood. During 2010, accounts payable had returned to normal levels allowing for increased cash provided by operating activities. The Hospital received $7.0 million in supplemental Medicaid payments in 2010 similar to the amount received in 2009. Cash provided by operating activities for 2010 and 2009, excluding the supplemental Medicaid payment, would have totaled approximately $16 million and $5 million, respectively. Most of the capital expenditures for 2010, which totaled $16 million, were for building and equipment flood restoration and replacement. In the next couple of years, the Hospital will complete the building flood restoration, including the hazard mitigation project as required by FEMA. The estimated cost to complete the building flood restoration totals approximately $12.4 million. As of December 31, 2010, the Hospital committed $9.3 million toward a computer upgrade and replacement project allowing for the expanded use of electronic health records. As of December 31, 2010, the Hospital's construction in progress totaled $10 million consisting of amounts expended for the Patient Tower ED Expansion project, the basement flood renovation project and the computer upgrade project. Capital expenditures for 2009 totaled $27 million with construction in progress of $8 million at the end of the year. Capital expenditures for 2008 totaled $63 million and construction in progress at the end of the year totaled $14 million.

Total current assets decreased to $63.9 million for 2010 compared to $73.3 million in 2009 and compared to $76.5 million in 2008. The decrease resulted from a reduction of $10.7 million in disaster grant funds receivable as the grant funds were received in 2010. Other noncurrent cash and investments increased to $108.8 million for 2010 compared to $90.2 million for 2009 and $58.5 million for 2008. The increase can be attributed to internally designated funds as investment market values recovered and the Hospital reinvested funds withdrawn for flood related expenditures. A summary of other noncurrent assets is presented in the table below:

Noncurrent Assets (dollars in millions)	2010	2009	2008
Internally designated funds (net of current portion)	$ 108.8	$ 90.2	$ 58.5
Funds held under a bond indenture agreement by trustee (net of current portion)	0.1	0.1	0.1
Other assets	12.9	11.9	13.3
Total noncurrent assets	$ 121.8	$ 102.2	$ 71.9

The Hospital had $59.0 million in long-term debt at December 31, 2010 compared to $62.8 million for 2009 and $70.0 million for 2008. The Hospital issued Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B totaling $43 million refunding the failed Auction Rate Securities Bonds, Series 2003. In addition, the Hospital also paid off in 2009, the $3.0 million short-term debt outstanding at December 31, 2008, as well as amounts drawn on the short-term $29 million line of credit secured in early 2009. At December 31, 2010 and 2009, the Hospital had no short-term debt outstanding. The additional short-term debt needed in 2008 and 2009 helped fund operating activities, flood recovery and capital acquisitions while waiting for government disaster grant monies to be paid.

Economic Outlook

The Patient Protection and Affordable Care Act/Health Care and Education Reconciliation Act, commonly referred to as the "health care reform law" was signed into law by Federal lawmakers in March 2010 and has been described as the most significant health care legislation since the passage of Medicare and Medicaid. The goal of the 2010 health care reform law is to increase the health care "value" by improving quality, reducing costs and improving accessibility. The law is complicated and its many provisions become effective in stages. Many key provisions will not be effective until after 2014. Health care reform should benefit hospitals as the number of uninsured patients decline. At the same time, hospitals will be pressured to operate more efficiently and to improve the health care value.

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, Indiana
Balance Sheets
December 31, 2010 and 2009

Assets

	2010	2009 (Restated)
Current Assets		
Cash and cash equivalents	$ 31,474,082	$ 24,408,001
Patient accounts receivable, less allowance for uncollectible accounts ($4,760,862 in 2010 and $4,838,286 in 2009)	21,938,366	24,362,603
Grants receivable	382,343	15,127,709
Other receivables	1,899,610	1,163,464
Inventories	2,585,107	2,777,479
Prepaid expenses	3,827,563	3,746,808
Restricted current assets limited as to use	1,759,836	1,750,413
Total current assets	63,866,907	73,336,477
Noncurrent Cash and Investments		
Internally designated	108,774,067	90,175,597
Trustee-held funds, less current	64,857	73,296
Total noncurrent cash and investments	108,838,924	90,248,893
Capital Assets		
Plant and equipment	274,200,678	265,975,808
Less accumulated depreciation	158,642,527	146,033,496
	115,558,151	119,942,312
Land	1,715,612	1,715,612
Construction in progress	10,070,742	7,735,635
Capital assets, net	127,344,505	129,393,559
Deferred Outflow of Resources - Interest Rate Swap Agreements	2,247,082	1,368,685
Other Assets		
Notes receivable, related party	6,888,600	6,433,826
Joint venture investments and other notes receivable	4,940,409	4,307,085
Unamortized bond issuance costs	1,087,913	1,207,781
Total assets	$ 315,214,340	$ 306,296,306

Liabilities and Net Assets

	2010	2009 (Restated)
Current Liabilities		
Accounts payable	$ 7,793,646	$ 8,101,351
Salaries, wages and related liabilities	8,684,990	9,550,850
Accrued interest payable	662,946	704,219
Estimated third-party payer settlements	3,440,978	2,599,591
Other accrued liabilities	6,137,450	6,500,886
Current portion of long-term debt	3,915,000	3,740,000
Total current liabilities	30,635,010	31,196,897
Fair Value of Interest Rate Swap Agreements	2,247,082	1,368,685
Long-Term Liabilities	55,078,748	59,051,552
Accrued Pension Cost	891,762	957,884
Total liabilities	88,852,602	92,575,018
Net Assets		
Unrestricted	156,052,316	145,185,280
Invested in capital assets, net of related debt	68,350,757	66,602,007
Restricted - expendable	1,958,665	1,934,001
Total net assets	226,361,738	213,721,288
Total liabilities and net assets	$ 315,214,340	$ 306,296,306

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009 (Restated)
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of $12,148,564 in 2010 and $9,790,586 in 2009	$ 186,412,857	$ 193,854,159
Other operating revenue	3,205,792	2,926,457
Total operating revenue	189,618,649	196,780,616
Operating Expenses		
Salaries and wages	68,974,227	73,273,887
Employee benefits	26,470,602	25,666,137
Fees	11,116,564	10,323,087
Supplies	33,920,234	34,894,805
Purchased services	23,519,907	23,474,588
Depreciation and amortization	17,326,263	16,103,026
Insurance	2,265,610	1,647,573
Other	514,736	529,417
Total operating expenses	184,108,143	185,912,520
Operating Income	5,510,506	10,868,096
Nonoperating Income (Expenses)		
Investment return	11,869,709	21,391,617
Interest expense	(3,025,497)	(2,929,134)
Contributions to related organizations	(2,675,810)	(3,072,114)
Grant revenue	-	3,378,371
Other nonoperating expense	(526,244)	(2,995,067)
Total nonoperating income	5,642,158	15,773,673
Excess of Revenues Over Expenses Before Extraordinary Item and Capital Grants	11,152,664	26,641,769
Capital Grants	1,487,786	44,308,656
Extraordinary Item - flood losses	-	(519,543)
Increase in Net Assets	12,640,450	70,430,882
Net Assets, Beginning of Year	213,721,288	143,290,406
Net Assets, End of Year	$ 226,361,738	$ 213,721,288

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009 (Restated)
Operating Activities		
Cash received from patients and third-party payers	$ 189,678,481	$ 193,480,264
Cash payments to employees for services	(96,740,247)	(98,910,511)
Cash payments to suppliers for goods and services	(71,708,011)	(85,112,171)
Other cash received	2,194,516	2,864,297
Net cash provided by operating activities	23,424,739	12,321,879
Noncapital Financing Activities		
Contributions to related parties	(2,675,810)	(3,072,114)
Noncapital grants and gifts	-	15,374,186
Other nonoperating	(526,244)	(2,216,379)
Net cash provided by (used in) noncapital financing activities	(3,202,054)	10,085,693
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,740,000)	(48,260,000)
Proceeds from issuance of long-term debt	-	43,095,000
Interest paid on long-term debt	(3,125,990)	(3,105,659)
Acquisition and construction of capital assets	(15,014,154)	(43,189,208)
Proceeds from sales of capital assets	33,102	-
Net payments under line of credit agreement	-	(3,000,000)
Capital grants and contributions received	16,233,152	64,918,994
Net cash provided by (used in) capital and related financing activities	(5,613,890)	10,459,127
Investing Activities		
Investment income	3,080,679	3,635,216
Purchase of investments in assets limited as to use	(22,309,441)	(19,325,462)
Disbursements for loans receivable	(1,538,404)	(1,550,098)
Repayments of loans receivable	725,436	1,976,032
Sale of investments in assets limited as to use	12,500,000	4,505,694
Net cash used in investing activities	(7,541,730)	(10,758,618)
Net Increase in Cash and Cash Equivalents	7,067,065	22,108,081
Cash and Cash Equivalents at Beginning of Year	26,231,710	4,123,629
Cash and Cash Equivalents at End of Year	$ 33,298,775	$ 26,231,710

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	2010	2009 (Restated)
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 31,474,082	$ 24,408,001
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	1,824,693	1,823,709
Total cash and cash equivalents	$ 33,298,775	$ 26,231,710
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from operations	$ 5,510,506	$ 10,868,096
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	17,326,263	16,103,026
Provision for uncollectible accounts	12,148,564	9,790,586
Loss on sale of equipment	114,873	-
Change in assets and liabilities		
Patient accounts receivable	(9,724,327)	(10,164,481)
Other assets	(899,659)	(2,146,347)
Current liabilities	(1,051,481)	(12,129,001)
Net cash provided by operating activities	$ 23,424,739	$ 12,321,879
Additional Cash Flow Information		
Property and equipment acquired through accounts payable	$ 2,403,863	$ 2,114,118

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 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, 2010 and 2009, 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 Income

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.

Inventories

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

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

Deferred Financing Costs

Deferred financing costs, which are included in long-term liabilities on the balance sheets, 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.

Deferred Amounts on Refunding

Deferred amounts on refunding, which are included in long-term debt 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.

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.

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. 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.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

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.

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 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 $6,939,741 and $7,151,107 of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2010 and 2009, respectively.

Approximately 38.5% and 39.4% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009, 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 2010 net patient service revenue decreased approximately $33,000 due to removal of previously estimated amounts. The 2009 net patient service revenue also increased approximately $985,000 due to final settlements in excess of amounts previously estimated.

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

	2010	2009
Gross patient charges		
Inpatients	$ 163,122,193	$ 179,305,017
Outpatients	227,144,878	212,756,731
	390,267,071	392,061,748
Charity care charges foregone	(10,917,875)	(8,618,825)
Provision for bad debt	(12,148,564)	(9,790,586)
Contractual allowances	(180,787,775)	(179,798,178)
Net patient service revenue	$ 186,412,857	$ 193,854,159

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 charges foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2010 and 2009, charges excluded from revenue under its charity policy were $10,917,875 and $8,618,825, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was $4,811,418 for 2010 and $3,587,696 for 2009.

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 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, 2010 and 2009, the Hospital had the following investments, all of which mature within one year:

	Fair Value 2010	Fair Value 2009
Cash equivalents - money market funds	$ 1,824,693	$ 1,823,709
Investments		
Mutual funds	$ 108,762,873	$ 90,164,434
Interest receivable	11,194	11,163
	$ 108,774,067	$ 90,175,597

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, 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009, the Hospital's investment in mutual funds consisted of:

	2010	2009
Frontegra Columbus Core Plus fixed income fund	29%	42%
PIMCO Total Return and Low Duration fixed income funds	31%	17%
Touchstone Sands Capital Institutional Growth fund	9%	12%
Vanguard Institutional Index fund	10%	10%
Mainstay ICAP Select Equity fund	12%	10%
Other funds	9%	9%
	100%	100%

Summary of Carrying Values

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

	2010	2009
Carrying value		
Deposits	$ 33,298,775	$ 26,231,710
Investments	108,774,067	90,175,597
	$ 142,072,842	$ 116,407,307
Included in the following balance sheet captions		
Cash and cash equivalents	$ 31,474,082	$ 24,408,001
Current assets limited as to use	1,759,836	1,750,413
Noncurrent assets limited as to use	108,838,924	90,248,893
	$ 142,072,842	$ 116,407,307

Investment Return

Investment return for the years ended December 31, 2010 and 2009 consisted of:

	2010	2009
Interest and dividend income	$ 5,713,931	$ 4,894,861
Net increase in fair value of investments	6,155,778	16,496,756
	$ 11,869,709	$ 21,391,617

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, 2010 and 2009 was as follows:

	2010	2009
Medicare	28.6%	25.8%
Medicaid	10.0%	11.9%
Other third-party payers	44.4%	40.9%
Individual patients	17.0%	21.4%
	100.0%	100.0%

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 are as follows:

Company Name - Description	Ownership %	2010 Investment Amount	2009 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	$ 672,038	$ 725,248
Columbus Surgery Center LLC - Ambulatory Surgery	50.00%	1,205,718	1,089,518
Columbus Urgent Care Center JT Venture - Immediate Care Center	50.00%	457,538	560,734
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	4.16%	65,680	65,680
Total		$ 3,032,895	$ 3,073,101

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2010 and 2009

Note 7: Capital Assets

Capital assets activity for the years ended December 31, 2010 and 2009 was:

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,715,612	$ -	$ -	$ -	$ 1,715,612
Land improvements	9,651,425	805,159	(13,088)	-	10,443,496
Buildings and leasehold improvements	157,396,662	7,712,878	(170,364)	1,409,759	166,348,935
Equipment	98,927,721	2,788,162	(4,560,470)	252,834	97,408,247
Construction in progress	7,735,635	3,997,700	-	(1,662,593)	10,070,742
	275,427,055	15,303,899	(4,743,922)	-	285,987,032
Less accumulated depreciation					
Land improvements	9,111,489	119,961	(13,088)	-	9,218,362
Buildings and leasehold improvements	75,754,106	7,694,896	(119,383)	-	83,329,619
Equipment	61,167,901	9,390,121	(4,463,476)	-	66,094,546
	146,033,496	17,204,978	(4,595,947)	-	158,642,527
	$ 129,393,559	$ (1,901,079)	$ (147,975)	$ -	$ 127,344,505

	2009				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,715,612	$ -	$ -	$ -	$ 1,715,612
Land improvements	9,878,157	117,346	(344,078)	-	9,651,425
Buildings and leasehold improvements	137,552,985	12,524,015	(984,537)	8,304,199	157,396,662
Equipment	91,491,822	11,432,257	(4,677,133)	680,775	98,927,721
Construction in progress	13,990,901	2,729,708	-	(8,984,974)	7,735,635
	254,629,477	26,803,326	(6,005,748)	-	275,427,055
Less accumulated depreciation					
Land improvements	9,315,586	139,981	(344,078)	-	9,111,489
Buildings and leasehold improvements	69,659,464	6,724,311	(629,669)	-	75,754,106
Equipment	56,435,585	8,985,629	(4,253,313)	-	61,167,901
	135,410,635	15,849,921	(5,227,060)	-	146,033,496
	$ 119,218,842	$ 10,953,405	$ (778,688)	$ -	$ 129,393,559

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 one-sixth 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 9: 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 of $200,000. 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 2010 and 2009 is summarized as follows:

	2010	2009
Balance, beginning of year	$ 1,875,647	$ 1,364,000
Current year claims incurred and changes in estimates for claims incurred in prior years	13,419,182	12,778,914
Claims and expenses paid	(13,129,419)	(12,267,267)
Balance, end of year	$ 2,165,410	$ 1,875,647

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2010 and 2009:

2010	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	$ 43,095,000	$ -	$ 845,000	$ 42,250,000	$ 815,000
Indiana Health Facility Financing Authority Bonds - Series 1993	20,730,000	-	2,895,000	17,835,000	3,100,000
	63,825,000	-	3,740,000	60,085,000	3,915,000
Plus: Unamortized bond premium	740,200	-	205,608	534,592	-
Less: Deferred amount on refunding	1,773,648	-	147,804	1,625,844	-
Total long-term debt	$ 62,791,552	$ -	$ 3,797,804	$ 58,993,748	$ 3,915,000

2009	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	$ -	$ 43,095,000	$ -	$ 43,095,000	$ 845,000
Indiana Health Facility Financing Authority Bonds - Series 2003	45,550,000	-	45,550,000	-	-
Indiana Health Facility Financing Authority Bonds - Series 1993	23,440,000	-	2,710,000	20,730,000	2,895,000
	68,990,000	43,095,000	48,260,000	63,825,000	3,740,000
Plus: Unamortized bond premium	971,320	-	231,120	740,200	-
Less: Deferred amount on refunding	-	1,773,648	-	1,773,648	-
Total long-term debt	$ 69,961,320	$ 41,321,352	$ 48,491,120	$ 62,791,552	$ 3,740,000

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 commencing August 15, 2009. The amount of the principal payable at December 31, 2010 and 2009 totals $17,835,000 and $20,730,000, respectively. The unamortized bond issue premium at December 31, 2010 and 2009 totals $534,592 and $740,200. 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 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.

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. Annual principal payments are due through August 1, 2021 and interest is variable, determined weekly and paid monthly. In addition, the payment of principal and interest is further secured by separate irrevocable, direct-pay letter of credit for which the Hospital pays a letter of credit fee quarterly.

In the event of a tender advance, repayment terms of the letter of credit consist of interest only on the first 367 days, with payment and interest and principal thereafter based upon a stated amortization schedule, or expiration of the letter of credit, whichever is first. The letter of credit expires in November 2012.

The Series 2009 Bond issue requires the Hospital to maintain certain financial covenants similar to previous bond issues. In connection with refunding of the Series 2003 Bonds, the related bond issue costs were deferred and are being amortized over the life of the Series 2009 Bond issue.

The debt service requirements (excluding bond premium accretion) as of December 31, 2010, are as follows:

Year Ending December 31, 2010	Total to be Paid	Principal	Interest
2011	$ 6,549,556	$ 3,915,000	$ 2,634,556
2012	6,560,236	4,175,000	2,385,236
2013	6,569,480	4,455,000	2,114,480
2014	6,582,433	4,755,000	1,827,433
2015	6,590,410	5,070,000	1,520,410
2016-2020	34,751,390	30,530,000	4,221,390
2021	7,352,362	7,185,000	167,362
	$ 74,955,867	$ 60,085,000	$ 14,870,867

Note 11: Line of Credit Agreement

On January 15, 2009, the Hospital entered into an unsecured taxable line of credit providing up to $29,000,000 of nonrevolving credit. The line matured on December 31, 2009 and was not renewed. During the fourth quarter of 2010, the Hospital entered into an unsecured taxable line of credit providing up to $3,000,000 of nonrevolving credit, this line will mature during the second quarter of 2011. As of December 31, 2010, there were no borrowings against this line of credit.

Note 12: 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 table below:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2010
$ 12,695,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	$ (1,207,231)
14,290,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(1,039,851)
$ 26,985,000						$ (2,247,082)

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2009
$ 12,985,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	$ (796,797)
14,620,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(571,888)
$ 27,605,000						$ (1,368,685)

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 a deferred outflow on the Hospital's balance sheets. The changes in fair value of the swap agreements of $1,368,685 and $2,239,710 for the years ended December 31, 2010 and 2009, respectively, are shown as an adjustment to the carrying amount of the related deferred outflow 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. The termination date of the swap agreements corresponds to the maturity of the 2009A Bonds and 2009B Bonds. At December 31, 2010, 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
$ 555,000	$ 3,450,000	$ 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 Financial Security Assurance, which was rated AAA by Standards & Poor's and Aa3 by Moody's Investors Service as of December 31, 2010 and 2009. 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 2010 and 2009 is summarized as follows:

	2010	2009
Balance, beginning of year	$ (1,368,685)	$ (3,608,395)
Increase (decrease) in market value	(878,397)	2,239,710
Balance, end of year	$ (2,247,082)	$ (1,368,685)

Swap Payments and Associated Debt

Using rates as of December 31, 2010, 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	2009 Bonds Principal	2009 Bonds Interest	Hedging Derivative Instrument, Net	Total to be Paid
2011	$ 815,000	$ 1,469,216	$ 321,109	$ 2,605,325
2012	855,000	1,440,587	313,781	2,609,368
2013	905,000	1,409,393	306,197	2,620,590
2014	955,000	1,377,453	298,101	2,630,554
2015	1,005,000	1,343,443	289,301	2,637,744
2016-2020	30,530,000	4,221,389	1,023,659	35,775,048
2021	7,185,000	167,362	70,389	7,422,751
	$ 42,250,000	$ 11,428,843	$ 2,622,537	$ 56,301,380

Note 13: Restricted and Designated Net Assets

At December 31, 2010 and 2009, restricted expendable net assets were available for the following purposes:

	2010	2009
Debt service	$ 1,824,693	$ 1,823,709
Capital acquisitions	130,589	106,898
Specific operating activities	3,383	3,394
Total restricted expendable net assets	$ 1,958,665	$ 1,934,001

At December 31, 2010 and 2009, approximately $109 million and $90 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 14: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2019. Total rental expense in 2010 and 2009 for all operating leases was approximately $678,000 and $731,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2010 that have initial or remaining lease terms in excess of one year:

2011	$ 1,072,000
2012	1,133,000
2013	859,000
2014	586,000
2015	574,000
2016 - 2019	1,371,000
Future minimum lease payments	$ 5,595,000

Note 15: 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.

Funding Policy

The Hospital is required to contribute at an actuarially determined rate; the rate was 5.48% and 5.24% of annual covered payroll for 2010 and 2009, respectively. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2010 and 2009 were $4,354,497 and $4,869,724, respectively. The 2009 contributions were equal to the required contribution for 2009, plus the additional contribution for 2008, which was included in current liabilities at December 31, 2008.

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, 2010 and 2009 were as follows:

	2010	2009
Annual required contribution	$ 4,354,497	$ 4,058,659
Interest on net pension obligation	76,631	82,313
Adjustment to annual required contribution	(142,753)	(153,338)
Annual pension cost	4,288,375	3,987,634
Contributions made	4,354,497	4,058,659
Decrease in net pension obligation	(66,122)	(71,025)
Net pension obligation, beginning of year	957,884	1,028,909
Net pension obligation, end of year	$ 891,762	$ 957,884

Actuarial valuation date:	January 1, 2010
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	2.00% for 2011 and 3.00% for years 2012 and later; plus merit and promotional percentage increases based on age or years of service

Asset Valuation Method

The actuarial value of assets are stated on an adjusted market value basis, which is a weighted-average of the actual market value (weight = 20%) and the expected adjusted market value (weight = 80%). The expected adjusted market value is the prior year's adjusted market value plus contributions less disbursements, all accumulated with interest at the assumed valuation rate to the current valuation date. Notwithstanding the above, the adjusted market value shall never be greater than 115%, nor less than 85%, of the actual market value.

Three-Year Trend Information

Year Ended December 31		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2008	$	2,825,023	74.0%	$	1,028,909
2009		3,987,634	101.8%		957,884
2010		4,288,375	101.5%		891,762

Funded Status

As of January 1, 2010, the most recent actuarial valuation date, the plan was 71.9% funded. The actuarial accrued liability for benefits was $40.9 million and the actuarial value of assets was $29.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $11.5 million. The covered payroll (annual payroll of active employees covered by the plan) was $79.5 million and the ratio of UAAL to the covered payroll was 14.5%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 2010 and 2009 was $482,006 and $492,122, respectively.

Deferred Compensation Plan

During 2009, the Hospital began a deferred compensation plan for certain independent contractors of the Hospital under Internal Revenue Code Section 457(f). Under the plan, the Hospital makes certain contributions to each participant's deferred compensation account in accordance with the personal services agreement between the Hospital and participant. At December 31, 2010 and 2009, the liability recorded for deferred compensation earned by the participants was $1,112,274 and $278,811.

Note 16: Disclosures About Fair Value of Financial Instruments

The following methods were used to estimate the fair value of financial instruments.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Hospital does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

Investments

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for debt with similar terms and maturities.

Interest Rate Swap Agreements

The fair value has been estimated by a third party.

The following table presents estimated fair values of the Hospital's financial instruments at December 31:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 33,298,775	$ 33,298,775	$ 26,231,710	$ 26,231,710
Investments	108,774,067	108,774,067	90,175,597	90,175,597
	$ 142,072,842	$ 142,072,842	$ 116,407,307	$ 116,407,307
Financial liabilities				
Long-term debt	$ 58,993,748	$ 60,777,248	$ 62,791,552	$ 65,209,499
Interest rate swap agreements (asset and liability)	2,247,082	2,247,082	1,368,685	1,368,685

Note 17: Commitments and Contingencies

Commitments

The Board of Trustees has authorized management to enter into several major construction projects. The construction projects revolve around the restoration of the main Hospital grounds related to a catastrophic flood that occurred on June 7, 2008. The construction contracts associated with the projects are a percentage base contract to the general contractor and any construction management and architectural retainage is accrued at the time the contract service is rendered.

In addition, the Board of Trustees has authorized management to enter into a contract to replace and upgrade the Hospital's computer systems allowing for adoption of the electronic health record.

As of December 31, 2010, the Hospital had material commitments for acquisition of capital assets and flood renovations totaling approximately $21.7 million.

The Hospital, along with two other hospitals, have 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 pro rata 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.

Note 18: 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	2010	2009
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	$ 4,699,044	$ 4,525,140
Rent expense	203,830	200,754
Insurance expense	518,124	656,063
Note receivable	6,887,639	6,492,915
Contributions to related organizations	1,720,565	1,720,565
Investment income	136,343	136,802
Employee benefit reimbursement received	432,176	380,925
Miscellaneous income	621,605	616,423
Other receivables	142,711	89,882
Notes receivable due from SIHM are made up of the following:		
Note due on demand, interest paid at prime	$ 117,000	$ 144,000
Note due on demand, interest paid at prime plus 1%	1,375,646	953,921
Long-term note due July 1, 2012, interest of 4%	3,294,993	3,294,994
Interest-free long-term note due May 1, 2017	2,100,000	2,100,000
	$ 6,887,639	$ 6,492,915
Columbus Regional Hospital Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	$ 696,015	$ 326,634
Contributions received from the Foundation	76,786	164,827
Other receivables	38,344	19,471
Other payables	35,000	
Hospice of South Central Indiana, Inc.		
Hospital purchases services		
Operating expenses	60,000	60,000
Miscellaneous sales to Hospice	182,884	134,126
Other receivables	289,628	253,763

Note 19: Extraordinary Item

On June 7, 2008, the Hospital experienced a catastrophic flood loss and was forced to evacuate its patients and close the Hospital's operations. The damage closed a majority of the Hospital's operations from June 7, 2008 through October 2008. Since the Hospital was not in a flood plain and floods are sufficiently rare for the area in and around the Hospital, it has been categorized as a 500-year flood. As such, management determined the flood loss was an extraordinary event.

A vast majority of the extraordinary item was reported in the Hospital's fiscal 2008 period, however, certain flood remediation costs totaling $519,543 were recognized during the year ended December 31, 2009.

Note 20: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines and unanticipated declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, including defined-benefit pension plan investments and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 21: Changes in Accounting Principle

In 2010, the Hospital adopted GASB 53, *Accounting and Financial Reporting for Derivative Instruments,* and changed its method of accounting for its interest rate swap agreements. The effect of this change had the following impact on the December 31, 2009 financial statement presentation:

	As Originally Reported (Including Reclassifications)	As Adjusted	Effect of Change
Balance Sheet			
Deferred outflow of resources - interest rate swap agreements	$ -	$ 1,368,685	$ 1,368,685
Total assets	304,927,621	306,296,306	1,368,685
Net assets - unrestricted	143,816,595	145,185,280	1,368,685
Total net assets	212,352,603	213,721,288	1,368,685
Total liabilities and net assets	304,927,621	306,296,306	1,368,685
Statement of Revenues, Expenses and Change in Net Assets			
Investment return	$ 23,631,327	$ 21,391,617	$ (2,239,710)
Total nonoperating income	18,013,383	15,773,673	(2,239,710)
Excess of revenues over expenses before capital grants	28,881,479	26,641,769	(2,239,710)
Increase in net assets	72,670,592	70,430,882	(2,239,710)
Net assets, beginning of year	139,682,011	143,290,406	3,608,395
Net assets, end of year	212,352,603	213,721,288	1,368,685

Required Supplemental Information
(Unaudited)

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Required Supplementary Pension Plan Information
December 31, 2010
(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
1/1/2008	$ 34,353,188	$ 36,134,950	$ 1,781,762	95.1%	$ 74,488,608	2.4%
1/1/2009	25,288,821	36,396,101	11,107,280	69.5%	77,513,889	14.3%
1/1/2010	29,434,064	40,961,008	11,526,944	71.9%	79,527,725	14.5%

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
2008	$ 2,825,023	$ 2,901,315	$ 2,090,250	72%	$ 1,028,909
2009	3,987,634	4,058,659	4,869,724	120%	957,884
2010	4,288,375	4,354,497	4,354,497	100%	891,762

Supplementary Information

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Federal Grantor/ Pass-Through Grantor/Program Federal Agency/Pass-Through Agency	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Housing and Urban Development/Indiana Office of Community and Rural Affairs			
State Administered Community Development Block Grant Program	14.228	DR1B-09-00x	$ 1,442,603
U.S. Department of Health and Human Services/Indiana State Department of Health			
National Bioterrorism Hospital Preparedness Program	93.889	BHP 759	17,364
			$ 1,459,967

Notes to Schedule

1. This schedule includes the federal awards activity of Columbus Regional Hospital (Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. The Hospital provided no federal awards to subrecipients.

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Independent Accountants' 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 the financial statements of Columbus Regional Hospital (Hospital) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 2, 2011, which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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.*

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 2, 2011.

This report is intended solely for the information and use of the governing body, management and others within the Hospital and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 2, 2011

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Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

Compliance

We have audited the compliance of Columbus Regional Hospital (Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2010. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the compliance of Columbus Regional Hospital based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, Columbus Regional Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Columbus Regional Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, others within the Hospital, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 2, 2011

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Hospital's major program was:

Program	CFDA Number
State Administered Community Development Block Grant Program	14.228

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The Hospital qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☐ Yes ☒ No

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2010

Reference Number	Finding	Status
09-1	The Schedule of Expenditures of Federal Awards for the Hospital for the year ended December 31, 2009 was not accurately prepared to demonstrate federal expenditures during 2009. As a result, the 2009 Schedule of Expenditures of Federal Awards was restated.	Corrected