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March 19, 2014

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, 2012 to December 31, 2012. 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, 2012 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

Auditor's Report and Financial Statements
December 31, 2012 and 2011

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited the accompanying financial statements of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Regional Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2013, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 14, 2013

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2012
(Unaudited)

Introduction

Columbus Regional Hospital (CRH) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a ten county region in southeastern Indiana. CRH's commitment to serving the community and being at the forefront of quality patient care is nationally recognized, as noted as the winner of the American Hospital Association's Quest for Quality Prize in 2007, the highest quality honor awarded by the hospital industry. Other recognitions over the recent years have included Top 100 Community Hospitals by Becker's Hospital Review, Thomson Reuters 100 Top Hospitals recognition, and Modern Healthcare's 100 Best Places to Work in Healthcare. Columbus Regional Hospital was Indiana's first Magnet designated hospital for outstanding nursing care and the first to earn reaccreditation status.

CRH has one of the highest home county market shares in the state, and the Hospital's ten-county market share is the largest of any hospital serving the region that is situated between Indianapolis, Louisville and Cincinnati. CRH is a county-owned hospital licensed for 325 beds and operating 215 beds.

CRH provides emergency and surgical services and comprehensive care in numerous specialty areas. The Hospital has 1,650 employees, 225 physicians on medical staff and 250 volunteers.

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

Year	Inpatients	Outpatients	Total
2012	9,359	236,771	246,130
2011	8,990	234,514	243,504
2010	8,519	233,255	241,774

The ever changing healthcare world moved forward in 2012 as a Supreme Court decision and Presidential election further propelled healthcare reform in a new direction. Columbus Regional Hospital pushed forward as well in 2012 in this transition time.

One of our major strategic projects in 2012 was the implementation of the largest information system project in our history, as we implemented a \$17 million electronic medical record system with Cerner. This system fundamentally changes the way that physicians, nurses and other healthcare professionals interact with CRH's patient information. While moving to an electronic medical record is a requirement under healthcare reform, it positions CRH to work in the new digital world and better connect with providers across the continuum of patient care.

Business Strategy - Balanced Scorecard Approach

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

People

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

In 2012, CRH focused on the following People initiatives:

- Initiated a concerted effort to improve communication with our physicians and employees. Survey results indicate success:
 - Employee engagement is at the top quartile as compared to other hospitals across the country, which is an accomplishment in a year when the electronic medical record system was implemented that impacted nearly every area within the Hospital.
 - Physician satisfaction improved from the 66th percentile to the 69th percentile.
- Our focus on employee wellness through our Healthy Me program was revitalized in 2012 around new incentives, health assessments, and ongoing education opportunities to create a healthier workforce.
- We continued to invest in our workforce with our second year of holding an all workforce event, a motivating and engaging experience for our employees, physicians and volunteers modeled on best practices from high performing hospitals working with Studer Group, a national leader in patient satisfaction and service excellence.
- Columbus Regional Hospital volunteers donated 24,515 hours to CRH, which represents more than \$500,000 in equivalent wages.
- CRH welcomed Pamela Missi, BSN, MSN, as the new Vice President and Chief Nursing Officer, bringing extensive nursing leadership from a health system perspective to further position our nursing services at the highest level.

Service Excellence

Service excellence is a key area as CRH works for high patient satisfaction, as well as strong employee and physician satisfaction. CRH partners with Press Ganey, who works with over 6,000 healthcare organizations across the country, to measure patient satisfaction. Satisfaction levels are at the top quartile in the country for many patient services. 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 CRH for their healthcare needs.

Quality and Safety Performance

CRH has received other recognition for its quality, among the most recent:

- We remained ahead of the curve on reducing readmission rates. Our overall 30-day readmission rate is lower than the CMS national database by 6% for pneumonia, 12% for heart attack, and 19% for heart failure. We were an early leader in how we work with skilled nursing facilities to work outside the walls of the Hospital to better address the needs of patients in extended nursing facilities.
- Quality performance on Centers for Medicare and Medicaid Services (CMS) indicators ranks us at the 70th percentile in the country.

- We invested \$2.9 million in state-of-the-art cardiac monitoring equipment. This equipment tracks vital patient trends, including oxygen saturation, blood pressure and electrical activity of the heart. Staff can recognize and prevent negative clinical outcomes before they occur and can respond to undesirable events faster, which leads to improved patient safety, reduced length of stay for patients and more lives saved.
- The Hospital and physician leadership are working closely to develop many new models of care delivery. One such new approach is the continued development of a Patient Centered Medical Neighborhood with Columbus Regional Health Physicians, which is an important step in our clinical integration efforts focusing on a new approach for chronic disease management, specifically for diabetes patients. CRH was one of 15 communities nationwide selected by CMS (Centers for Medicare & Medicaid Services) to receive a federal grant to support this work.
- We were also honored to be recognized with several prestigious national quality recognitions including:
 - Columbus Regional Hospital was named one of the top 100 Great Community Hospitals by Becker's Hospital Review. The list recognizes the winning community hospitals' commitment to the health of their local population through clinical excellence, community involvement and various other efforts.
 - U.S. News and World Report ranked Columbus Regional Hospital among the best hospitals in the nation. CRH is ranked 13th in Indiana (out of 167 Hoosier hospitals) and is also recognized as one of America's high-performing hospitals in Neurology & Neurosurgery.
 - U.S. News and World Report recognized David Wilson, MD as one of the nation's top doctors. Dr. Wilson is the lead pulmonologist at the Columbus Regional Hospital Lung Institute.
 - Our Breast Health Center was designated a Breast Imaging Center of Excellence by the American College of Radiology (ACR).
 - Columbus Regional Health's Heart & Vascular Center was designated as an Accredited Heart Failure Center by The Healthcare Accreditation Colloquium. CRH was just one of nine Indiana hospitals to earn the accreditation.
 - HealthGrades Stroke Care Excellence Award. Hospitals receiving this honor were in the top tier in the HealthGrades stroke care ratings.
 - Columbus Regional Hospital ranked in the top 3% of community hospitals through a study by iVantage Health Analytics. The study evaluated community hospitals across three overarching dimensions of Market Strength, Value-Based Strength and Financial Strength.

Focus on Growth and Innovation

Innovation is one of our core values in how we are making healthcare better and serving as a benchmark regional hospital. Our work with Lean and Six Sigma performance improvement tools is nationally recognized, as those are leveraged in process standardization projects to achieve better value for our patients. We introduced a new human-centered, design-based approach for our process standardization projects through our partnership with IDEO, an international innovation leader for organizations. Our Innovation Center and Simulation Lab serve as a catalyst for bringing innovative approaches to our everyday work.

CRH is committed to using the latest technology and innovation to improve patient safety and outcomes. Some other examples of innovation and growth at CRH include:

- Our Heart & Vascular Center had strong volume, market share, and profitable growth improvement in 2012, thanks to our partnership with IU Health Cardiovascular and close working relationship with Indiana Heart Physicians – Columbus practice to enhance our cardiac service line. Sorin Pusca, MD started his work in March as the full-time cardiothoracic surgeon placed at Columbus Regional Hospital as part of our cardiac surgery partnership with IU Health Cardiovascular.
- We created five new Growth Teams in 2012, with a new approach to better integrate hospital and physician leadership around planning and activity to support key profitable growth services for CRH. The new Growth Teams approach is working across operations, physicians, business development, marketing and others, supported the new growth targets.
- We launched the surgery co-management model to align incentives and enhance value with our surgeons. The co-management team immediately focused on standardizing supplies in an effort to improve quality and lower cost.
- We purchased and implemented a robotic surgical system (daVinci robot) that utilizes the most advanced robotic technology to enhance surgical capabilities. Robotic surgery offers faster healing, improved patient outcomes, shorter hospital stays and smaller incisions. Gynecology surgeons have championed this new technology to stop outmigration from our market for patients seeking this technology. We look to expand across thoracic and other surgical specialties in 2013.
- We acquired 100% ownership of Columbus Diagnostic Imaging, effective January 1, 2013, to further extend our presence beyond the walls of the hospital for more outpatient, off-campus care.
- Physician recruitment efforts resulted in the addition of nine active medical staff to fill identified community needs, including the more critical needs of pulmonary/critical care, cardiothoracic surgery, vascular surgery and Hospitalist positions.
- Our building reconstruction included the completion of these projects:
 - Administration building reopened with new offices for Administration, Medical Staff Services, Purchasing and Foundation. The Administration offices had been located in temporary trailer units since 2008 when the Hospital reopened from a five-month closure to flood damage.
 - Construction work began on a new Endoscopy Center within the main Hospital, which opened March 2013.
 - Construction of a floodwall on the Hospital campus, which was required by FEMA as part of rebuilding efforts from flood damage in 2008, was completed in 2012.
- We were also honored to receive:
 - Our Healthy Communities Initiative received the Indiana State Health Commissioner Public Service Award for its work with the Communities Putting Prevention to Work federal grant.

Focus on Finance

Columbus Regional Hospital's financial performance and activities for the year ended December 31, 2012 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

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

Selected Financial Data and Statistics (Dollars in Thousands)						
	2012		2011		2010	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	\$ 233,046	100.0%	\$ 195,403	100.0%	\$ 189,619	100.0%
Salaries and benefits	102,401	43.9%	94,233	48.2%	95,445	50.3%
Supplies and drugs	36,191	15.5%	33,108	16.9%	33,920	17.9%
Purchased services and other operating expenses	67,023	28.8%	42,317	21.7%	37,417	19.7%
Depreciation and amortization	19,279	8.3%	17,604	9.0%	17,326	9.1%
Total expenses	224,894	96.5%	187,262	95.8%	184,108	97.1%
Income from operations	8,152	3.5%	8,141	4.2%	5,511	2.9%
Nonoperating income (expense), net	8,071	3.5%	(2,094)	-1.1%	5,642	3.0%
Capital grants	587	0.3%	7,313	3.7%	1,488	0.8%
Special items	(5,741)	-2.5%	-	0.0%	-	0.0%
Increase in net position	\$ 11,069	4.7%	\$ 13,360	6.8%	\$ 12,641	6.7%
Cash Flow Data						
Cash provided by operating activities	\$ 19,041		\$ 27,517		\$ 23,425	
Cash used in noncapital activities	(2,806)		(2,745)		(3,202)	
Cash used in financing activities	(32,368)		(21,939)		(5,614)	
Cash provided by (used in) investing activities	9,763		(7,333)		(7,542)	
Financial Position						
Current assets	\$ 75,536		\$ 65,316		\$ 63,867	
Capital assets, net	130,538		130,958		127,345	
Other noncurrent assets	139,709		135,335		124,002	
Total assets	\$ 345,783		\$ 331,609		\$ 315,214	
Long-term debt, including current portion	\$ 50,876		\$ 55,049		\$ 58,994	
Other liabilities	44,117		36,839		29,859	
Total liabilities	\$ 94,993		\$ 91,888		\$ 88,853	
Unrestricted net position	\$ 170,230		\$ 161,893		\$ 156,052	
Net investment in capital assets	78,691		75,909		68,351	
Restricted net position	1,869		1,919		1,959	
Total net position	\$ 250,790		\$ 239,721		\$ 226,362	
Days cash on hand	249.4		281.5		277.9	
Operating Data						
Number of beds (available for use)	178		178		210	
Inpatient discharges	9,359		8,990		8,519	
Average daily census	100		99		91	
Average length of stay	3.9		4.0		3.9	
Occupancy	56%		48%		43%	
Inpatient case mix	1.3757		1.3845		1.4039	
Outpatient visits	236,771		234,514		233,255	

Results of Operations

The Hospital's revenues depend upon inpatient occupancy levels, the ancillary services, and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures, and the charge and negotiated payment rates for such services. The Hospital's gross charges typically do not reflect what is actually paid. The Hospital has entered into agreements with third-party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates per diagnoses or discounts from gross charges. In addition, the Hospital's policy is to also provide a discount to uninsured patients. This discount is similar to the discount provided to local managed care health plans.

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

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

	2012	2011	2010
Medicare	47.0%	46.6%	46.5%
Medicaid	11.3%	12.1%	11.0%
Managed care plans	32.8%	32.8%	33.5%
Other	8.9%	8.5%	9.0%

Revenues for the year ended December 31, 2012 increased 19.2% to \$232.9 million from \$195.4 million in 2011. 2011 revenues were also up, approximately 22.8%, when compared to 2010 revenues, which totaled \$189.6 million. Increases in revenue can be attributed to changes in patient volumes. Inpatient discharges for 2012 were up 4.1% and 9.9%, respectively when compared to inpatient discharges for 2011 and 2010. Outpatient volumes in 2012 were up about 1% when compared to 2011 and 2010 outpatient volumes. Emergency Department (ED) visits, which make up 18% of total outpatient volumes, decreased slightly in 2012 when compared to 2011 and were up 3.0% when compared to 2010. Revenues for 2012 were also impacted by the implementation of the Hospital Assessment Fee (HAF) program, which increased net patient revenues from the Medicaid program.

Total operating expenses increased 20% in 2012 to \$224.8 million from \$187.3 million in 2011 and up 22% when compared to operating expenses in 2010, which totaled \$184.1 million. The greatest driver of increased operating expenses for 2012 were fees totaling \$12.5 million required by the HAF program. Salaries and benefits and supplies increased 8.7% and 9.3%, respectively. Purchased services (excluding the Hospital Assessment Fee) and depreciation were up 29.2% and 9.5%, respectively. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process standardization and improvement tools.

Income from operations for 2012 and 2011 totaled \$8.2 million and \$8.1 million, which was increased from \$5.5 million for 2010. Net nonoperating income for 2012 totaled \$8.1 million, which included investment gains, interest expense and contributions to related organizations. Net nonoperating expense for 2011 also consisted of investment gains, interest expense and contributions to related organizations and totaled (\$2.1) million. Nonoperating income for 2010 consisted mostly of investment income and totaled \$5.6 million. In 2012, CRH determined that some construction costs previously incurred were impaired and recorded a special loss item totaling \$5.7 million. Increase in net position for 2012 totaled \$11.1 million compared to increases in net position that totaled \$13.4 million for 2011 and \$12.6 million in 2010.

Financial Position

Cash provided by operating activities in 2012 totaled \$19 million. This compares to cash provided by operating activities of \$28 million in 2011 and \$23 million in 2010. The decrease in the amount of cash provided from operating activities in 2012 resulted from greater cash payments to suppliers and employees, as well as less timely collection of payments as a result of the system conversion previously discussed. Most of the capital expenditures for 2012, which totaled \$26 million, were for building flood restoration and computer system upgrade and replacement. Building flood restoration includes the hazard mitigation project (flood wall), which was completed in 2012. As of December 31, 2012, the Hospital's construction in progress totaled \$1.8 million, consisting of amounts expended for a few remodeling projects including the Endoscopy Center opening in March 2013. Capital expenditures for 2011 totaled \$18 million with construction in progress of \$17.5 million at the end of the year. Capital expenditures for 2010 totaled \$15 million and construction in progress at the end of the year totaled \$10 million.

Current assets increased to \$75.5 million for 2012 compared to \$65.3 million in 2011 and \$63.9 million in 2010. The \$10 million increase for 2012 was largely due to increased patient accounts receivable balances resulting from a new billing system installation in 2012. Other noncurrent cash and investments increased to \$121.5 million for 2012 compared to \$118.4 million for 2011 and \$108.8 million for 2010. The increase can be attributed to internally designated funds as investment market values continued to recover. A summary of other noncurrent assets is presented in the table below:

Noncurrent Assets (dollars in millions)	2012	2011	2010
Internally designated funds	\$ 121.5	\$ 118.4	\$ 108.8
Funds held under a bond indenture agreement by trustee (net of current portion)	-	-	0.1
Other assets	<u>18.2</u>	<u>16.9</u>	<u>15.1</u>
Total noncurrent assets (excluding capital assets)	<u>\$ 139.7</u>	<u>\$ 135.3</u>	<u>\$ 124.0</u>

The Hospital had \$50.9 million in long-term debt at December 31, 2012 compared to \$55.0 million for 2011 and \$59.0 million for 2010. In 2009, 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.

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 will require fundamental changes to the healthcare business and care delivery models. Physician relationships will be critical in changing these models. Hospitals will be pressured to reduce costs and operate more efficiently in order 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. If you have questions about this report or need additional information, contact the Hospital Chief Financial Officer's Office at 2400 East 17th Street Columbus, IN 47201.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Balance Sheets December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 20,615,980	\$ 26,985,283
Patient accounts receivable, less allowance for uncollectible accounts (\$6,923,261 in 2012 and \$4,607,378 in 2011)	33,781,444	24,652,315
Grants receivable	5,088,901	4,501,711
Other receivables	8,301,831	1,771,987
Inventories	3,179,592	2,953,233
Prepaid expenses	2,789,334	2,681,760
Restricted current assets limited as to use	1,778,810	1,770,127
Total current assets	<u>75,535,892</u>	<u>65,316,416</u>
Noncurrent Cash and Investments		
Internally designated	121,488,663	118,421,242
Trustee-held funds, less current	33,894	42,975
Total noncurrent cash and investments	<u>121,522,557</u>	<u>118,464,217</u>
Capital Assets		
Plant and equipment	315,036,525	287,167,843
Less accumulated depreciation	188,039,876	175,479,503
	<u>126,996,649</u>	<u>111,688,340</u>
Land	1,770,052	1,746,052
Construction in progress	1,771,681	17,524,000
Capital assets, net	<u>130,538,382</u>	<u>130,958,392</u>
Deferred Outflow of Resources - Interest Rate Swap Agreements	<u>3,752,312</u>	<u>3,753,772</u>
Other Assets		
Notes receivable, related party	5,669,535	6,393,312
Joint venture investments and other notes receivable	6,596,310	4,377,022
Deferred financing costs	975,769	1,154,161
Goodwill	1,191,819	1,191,819
	<u>13,233,433</u>	<u>13,116,314</u>
Total assets	<u>\$ 345,782,576</u>	<u>\$ 331,609,111</u>

Liabilities and Net Position

	2012	2011
Current Liabilities		
Accounts payable	\$ 11,586,161	\$ 11,760,815
Salaries, wages and related liabilities	10,123,656	9,368,698
Accrued interest payable	495,658	546,951
Estimated third-party payer settlements	7,316,278	4,147,314
Other accrued liabilities	10,075,189	6,434,075
Current portion of long-term debt	4,455,000	4,175,000
Total current liabilities	44,051,942	36,432,853
Fair Value of Interest Rate Swap Agreements	3,752,312	3,753,772
Long-Term Obligations	46,421,195	50,874,399
Accrued Pension Cost	767,346	827,218
Total liabilities	94,992,795	91,888,242
Net Position		
Unrestricted	170,230,041	161,893,309
Net investment in capital assets	78,690,706	75,908,993
Restricted	1,869,034	1,918,567
Total net position	250,789,781	239,720,869
 Total liabilities and net position	 <u>\$ 345,782,576</u>	 <u>\$ 331,609,111</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$14,559,326 in 2012 and \$13,477,433 in 2011	\$ 226,474,486	\$ 191,744,749
Other operating revenue	<u>6,571,905</u>	<u>3,658,254</u>
Total operating revenue	<u>233,046,391</u>	<u>195,403,003</u>
Operating Expenses		
Salaries and wages	75,764,081	69,849,513
Employee benefits	26,636,641	24,383,941
Fees	16,499,282	14,271,468
Supplies	36,190,775	33,107,988
Purchased services	32,993,482	25,442,914
Depreciation and amortization	19,279,277	17,604,155
Insurance	2,427,524	2,008,345
Hospital assessment fee	12,506,453	-
Other	<u>2,597,206</u>	<u>594,596</u>
Total operating expenses	<u>224,894,721</u>	<u>187,262,920</u>
Operating Income	<u>8,151,670</u>	<u>8,140,083</u>
Nonoperating Income (Expenses)		
Investment return	13,241,326	3,360,339
Interest expense	(2,364,415)	(2,709,169)
Contributions to related organizations	(2,195,275)	(1,979,840)
Other nonoperating expense	<u>(611,018)</u>	<u>(765,585)</u>
Total nonoperating income (expense)	<u>8,070,618</u>	<u>(2,094,255)</u>
Excess of Revenues Over Expenses Before Capital Grants	16,222,288	6,045,828
Capital Grants	587,190	7,313,303
Special Item - Impairment of Capital Asset	<u>(5,740,566)</u>	<u>-</u>
Increase in Net Position	11,068,912	13,359,131
Net Position, Beginning of Year	<u>239,720,869</u>	<u>226,361,738</u>
Net Position, End of Year	<u><u>\$ 250,789,781</u></u>	<u><u>\$ 239,720,869</u></u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Statements of Cash Flows Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Cash received from patients and third-party payers	\$ 218,334,997	\$ 190,160,678
Cash payments to employees for services	(98,970,578)	(93,840,575)
Cash payments to suppliers for goods and services	(102,544,356)	(72,588,669)
Other cash received	<u>2,221,385</u>	<u>3,785,877</u>
Net cash provided by operating activities	<u>19,041,448</u>	<u>27,517,311</u>
Noncapital Financing Activities		
Contributions to related parties	(2,195,275)	(1,979,840)
Other nonoperating	<u>(611,018)</u>	<u>(765,585)</u>
Net cash used in noncapital financing activities	<u>(2,806,293)</u>	<u>(2,745,425)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(4,175,000)	(3,915,000)
Interest paid on long-term debt	(2,413,912)	(3,057,371)
Acquisition and construction of capital assets	(25,778,786)	(18,160,508)
Capital grants and contributions received	<u>-</u>	<u>3,193,935</u>
Net cash used in capital and related financing activities	<u>(32,367,698)</u>	<u>(21,938,944)</u>
Investing Activities		
Investment income	5,503,435	5,960,404
Purchase of investments in assets limited as to use	(6,960,091)	(27,247,240)
Disbursements for loans receivable	(1,551,286)	(493,605)
Repayments of loans receivable	961,831	1,137,274
Purchase of Garden Villa nursing home	-	(1,690,165)
Sale of investments in assets limited as to use	<u>11,808,953</u>	<u>15,000,000</u>
Net cash provided by (used in) investing activities	<u>9,762,842</u>	<u>(7,333,332)</u>
Net Decrease in Cash and Cash Equivalents	(6,369,701)	(4,500,390)
Cash and Cash Equivalents at Beginning of Year	<u>28,798,385</u>	<u>33,298,775</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 22,428,684</u></u>	<u><u>\$ 28,798,385</u></u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 20,615,980	\$ 26,985,283
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	<u>1,812,704</u>	<u>1,813,102</u>
Total cash and cash equivalents	<u><u>\$ 22,428,684</u></u>	<u><u>\$ 28,798,385</u></u>
Reconciliation of Operating Income to Net Cash		
 Provided by Operating Activities		
Operating income	\$ 8,151,670	\$ 8,140,083
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	19,279,277	17,604,155
Provision for uncollectible accounts	14,559,326	13,477,433
Loss on sale of equipment	70,531	72,761
Change in assets and liabilities		
Patient accounts receivable and third party settlements	(20,519,491)	(15,975,652)
Other assets	(7,949,785)	710,031
Current liabilities	<u>5,449,920</u>	<u>3,488,500</u>
Net cash provided by operating activities	<u><u>\$ 19,041,448</u></u>	<u><u>\$ 27,517,311</u></u>
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	\$ 3,096,443	\$ 4,384,817
Impairment of capital asset recognized	5,740,566	-

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2012 and 2011**

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.

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 61, *The Financial Reporting Entity*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement has been applied retrospectively and had no impact on the Hospital’s net position, changes in net position or financial reporting disclosures. In accordance with this Statement, the financial statements include the financial statements of Columbus Surgery Center, LLC and Multi-County Health Network, LLC.

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.

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph No. 7 of that Statement to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. This Statement has been applied retrospectively and had no impact on the Hospital’s net position, changes in net position or financial reporting disclosures.

During 2012, the Hospital also adopted Statement of Governmental Accounting Standards Board (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement has been applied retrospectively and had no impact on the Hospital’s net position, changes in net position or financial reporting disclosures other than changing terminology from net assets to net position.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2012 and 2011**

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, 2012 and 2011, 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.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2012 and 2011

Inventories

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

Goodwill

Goodwill has a carrying value at December 31, 2012 and 2011 of \$1,191,819. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. There were no write-downs in the carrying amounts of goodwill during 2012 or 2011.

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.

Deferred Amounts on Refunding

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

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2012 and 2011

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

Net Position

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

Interest Rate Swap Agreements

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

Income Taxes

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

Grants and Contributions

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

Columbus Regional Hospital

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Notes to Financial Statements

December 31, 2012 and 2011

Electronic Health Records Incentive Program

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

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

In 2012, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$600,000, which is included in other operating revenues in the statement of revenues, expenses and changes in net position. The Hospital had not met the requirements for the first-year payment under the Medicare program as of December 31, 2012.

Special Item

Special items are defined as transactions or events either unusual in nature or infrequent in occurrence and within management's control. During the year, the Hospital recognized a charge of \$5,740,566 that pertained to architectural and construction plans for an abandoned capital plan. The plans were construction-ready prior to the June 7, 2008 flood. The construction was delayed while the Hospital recuperated from the flood. Given the current health care reform environment and needs of the Hospital, the Hospital decided in 2012 to permanently abandon these plans and pursue other capital planning.

Long-Term Nursing Facility

During 2012, the Hospital acquired nursing home operations through the execution of a licensing agreement, management agreement and lease agreement with a third party. The nature of the agreements provide the Hospital the rights to all operating assets, government provider numbers and real estate. In connection with these agreements, the Hospital simultaneously entered into a management agreement with a third party to execute the operations of the nursing home. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheet and statements of revenues, expenses and changes in net position.

Subsequent to year end, the Hospital acquired the operations of an additional nursing home.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2012 and 2011**

Note 2: Business Acquisitions

In 2011, the Hospital acquired the remaining 50% ownership in Columbus Surgery Center, LLC (Center) to give the Hospital a 100% ownership interest in the Center. The Hospital paid \$2,000,000 in cash for this acquisition, and goodwill of approximately \$941,000 was recognized in the transaction. Upon the effective date of the purchase in 2011, the Center is a blended component unit of the Hospital.

The Center is a freestanding Medicare-certified ambulatory surgery center in Columbus, Indiana and the Hospital desires to operate the Center as part of an integrated delivery system providing access to innovative, cost effective, quality healthcare that is focused on the use of technology and evidence-based medicine.

The purchase agreement contains a repurchase option with the following significant terms: the seller has the right, until January 1, 2015 (the term), to repurchase the 50% ownership in the event that: (1) the seller terminates the co-management agreement (the Agreement) during the term thereof with cause, (2) the Hospital does not enter into the Agreement on or before April 1, 2012 or chooses not to renew the agreement following the expiration of the initial term of the agreement or (3) the Hospital unreasonably interferes with the ability of the seller to achieve its performance objectives under the Agreement. The terms of the repurchase option will be determined in a manner consistent with all applicable laws and regulations, fair market value and commercially reasonable and consistent with an opinion of an independent third party valuation consultant.

Note 3: Net Patient Service Revenue

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

A summary of payment arrangements include:

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

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Notes to Financial Statements **December 31, 2012 and 2011**

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

Medicaid Disproportionate Share. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive certain supplemental Medicaid payments. The amounts of these supplemental Medicaid payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental Medicaid payments under this program have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized \$4,722,384 and \$6,456,717 of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2012 and 2011, respectively.

The Hospital also received approximately \$19.2 million during 2012 due to the enactment of a state-specific provider assessment program to increase Medicaid payments to hospitals referred to as the Indiana Hospital Assessment Fee Program. This revenue is recorded within net patient service revenue in the statement of revenues, expenses and changes in net position for 2012. Approximately \$6.4 million of these increased payments were related to the Hospital's fiscal year 2011. The Hospital paid approximately \$12.5 million into this Medicaid program, which is recorded as an operating expense in the statement of revenues, expenses and changes in net position. Approximately \$4.2 million of the payments to the Medicaid program were related to the Hospital's fiscal year 2011 but are included in 2012 as a result of when the assessment program was approved. There is no assurance this program will continue to be implemented in the future.

Approximately 46% and 39% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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 2012 net patient service revenue decreased approximately \$556,000 due to removal of previously estimated amounts. The 2011 net patient service revenue decreased approximately \$580,000 due to removal of previously estimated amounts.

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2012 and 2011

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

	2012	2011
Gross patient charges		
Inpatients	\$ 199,417,491	\$ 178,986,155
Outpatients	254,995,748	233,670,526
	<u>454,413,239</u>	<u>412,656,681</u>
Charity care charges foregone	(13,987,047)	(12,680,821)
Provision for bad debt	(14,559,326)	(13,477,433)
Contractual allowances	<u>(199,392,380)</u>	<u>(194,753,678)</u>
Net patient service revenue	<u>\$ 226,474,486</u>	<u>\$ 191,744,749</u>

Note 4: Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides, as well as the amount of charges foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2012 and 2011, charges excluded from revenue under its charity policy were \$13,987,047 and \$12,680,821, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$6,173,257 for 2012 and \$5,476,976 for 2011.

Note 5: Deposits, Investments and Investment Income

Deposits

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

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary 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.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2012 and 2011

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, 2012 and 2011, the Hospital had the following investments, all of which mature within one year:

	2012	2011
Cash equivalents - money market funds	\$ 1,812,704	\$ 1,813,102
Investments		
Mutual funds	\$ 121,266,999	\$ 117,983,609
Interest receivable	221,664	437,633
	<u>\$ 121,488,663</u>	<u>\$ 118,421,242</u>

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, 2012 and 2011, 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, 2012 and 2011 are held by the counterparties in other than the Hospital's name.

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2012 and 2011

Concentration of Credit Risk - The Hospital establishes ranges by investment category to limit investment concentration. At December 31, 2012 and 2011, the Hospital's investment in mutual funds consisted of:

	2012	2011
PIMCO Total Return and Low Duration fixed income funds	28%	35%
Scout Core Plus Bond Fund Institutional	31%	28%
Mainstay ICAP Select Equity fund	9%	8%
Vanguard Institutional Index fund	7%	6%
Other funds	25%	23%
	<u>100%</u>	<u>100%</u>

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 22,428,684	\$ 28,798,385
Investments	<u>121,488,663</u>	<u>118,421,242</u>
	<u>\$ 143,917,347</u>	<u>\$ 147,219,627</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 20,615,980	\$ 26,985,283
Current assets limited as to use	1,778,810	1,770,127
Noncurrent assets limited as to use	<u>121,522,557</u>	<u>118,464,217</u>
	<u>\$ 143,917,347</u>	<u>\$ 147,219,627</u>

Investment Return

Investment return for the years ended December 31, 2012 and 2011 consisted of:

	2012	2011
Interest and dividend income	\$ 5,503,435	\$ 5,960,404
Net increase (decrease) in fair value of investments	<u>7,737,891</u>	<u>(2,600,065)</u>
	<u>\$ 13,241,326</u>	<u>\$ 3,360,339</u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2012 and 2011

Note 6: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of accounts receivable from patients and third-party payers at December 31, 2012 and 2011 was as follows:

	2012	2011
Medicare	37.1%	30.8%
Medicaid	13.0%	12.8%
Other third-party payers	38.1%	42.0%
Individual patients	11.8%	14.4%
	100.0%	100.0%

Note 7: Investment in and Advances to Equity Investees

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

Company Name - Description	Ownership %	2012 Investment Amount	2011 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 777,430	\$ 640,728
Columbus Urgent Care Center JT Venture - Immediate Care Center	50.00%	219,690	290,640
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	181,921
United Hospital Services, LLC - Laundry Services	4.35%	262,722	262,722
Indiana Healthcare Reciprocal Risk Retention Group	11.00%	335,311	335,311
Total		\$ 2,227,074	\$ 2,161,322

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2012 and 2011

Note 8: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,746,052	\$ 24,000	\$ -	\$ -	\$ 1,770,052
Land improvements	10,874,132	1,309,898	(2,450)	5,073,434	17,255,014
Buildings and leasehold improvements	175,037,488	3,444,494	(187,881)	289,144	178,583,245
Equipment	101,256,223	18,170,293	(6,496,774)	6,268,524	119,198,266
Construction in progress	17,524,000	1,541,727	(5,662,944)	(11,631,102)	1,771,681
	<u>306,437,895</u>	<u>24,490,412</u>	<u>(12,350,049)</u>	<u>-</u>	<u>318,578,258</u>
Less accumulated depreciation					
Land improvements	9,365,463	386,231	(2,450)	-	9,749,244
Buildings and leasehold improvements	92,259,609	8,245,002	(125,169)	-	100,379,442
Equipment	73,854,431	10,468,092	(6,411,333)	-	77,911,190
	<u>175,479,503</u>	<u>19,099,325</u>	<u>(6,538,952)</u>	<u>-</u>	<u>188,039,876</u>
	<u>\$ 130,958,392</u>	<u>\$ 5,391,087</u>	<u>\$ (5,811,097)</u>	<u>\$ -</u>	<u>\$ 130,538,382</u>

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,715,612	\$ 30,440	\$ -	\$ -	\$ 1,746,052
Land improvements	10,443,496	430,636	-	-	10,874,132
Buildings and leasehold improvements	166,348,935	5,965,245	(20,188)	2,743,496	175,037,488
Equipment	97,408,247	6,464,285	(2,616,309)	-	101,256,223
Construction in progress	10,070,742	10,196,754	-	(2,743,496)	17,524,000
	<u>285,987,032</u>	<u>23,087,360</u>	<u>(2,636,497)</u>	<u>-</u>	<u>306,437,895</u>
Less accumulated depreciation					
Land improvements	9,218,362	147,101	-	-	9,365,463
Buildings and leasehold improvements	83,329,619	8,942,277	(12,287)	-	92,259,609
Equipment	66,094,546	10,311,334	(2,551,449)	-	73,854,431
	<u>158,642,527</u>	<u>19,400,712</u>	<u>(2,563,736)</u>	<u>-</u>	<u>175,479,503</u>
	<u>\$ 127,344,505</u>	<u>\$ 3,686,648</u>	<u>\$ (72,761)</u>	<u>\$ -</u>	<u>\$ 130,958,392</u>

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Notes to Financial Statements **December 31, 2012 and 2011**

Note 9: Medical Malpractice Claims

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

During 2003, the Hospital became one-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 10: Self-Insured Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount \$250,000 in 2012 and 2011. 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.

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Activity in the Hospital's accrued employee health claims liability, which is included in other accrued liabilities in the balance sheets, during 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ 1,917,528	\$ 2,165,410
Current year claims incurred and changes in estimates for claims incurred in prior years	14,220,235	13,153,818
Claims and expenses paid	<u>(13,599,395)</u>	<u>(13,401,700)</u>
Balance, end of year	<u><u>\$ 2,538,368</u></u>	<u><u>\$ 1,917,528</u></u>

Note 11: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2012 and 2011:

	Beginning Balance	Additions	2012 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	\$ 41,435,000	\$ -	\$ (855,000)	\$ 40,580,000	\$ 905,000
Indiana Health Facility Financing Authority Bonds - Series 1993	<u>14,735,000</u>	<u>-</u>	<u>(3,320,000)</u>	<u>11,415,000</u>	<u>3,550,000</u>
	56,170,000	-	(4,175,000)	51,995,000	4,455,000
Plus: Unamortized bond premium	357,439	-	(146,008)	211,431	-
Less: Deferred amount on refunding	<u>1,478,040</u>	<u>-</u>	<u>(147,804)</u>	<u>1,330,236</u>	<u>-</u>
Total long-term debt	<u><u>\$ 55,049,399</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (4,173,204)</u></u>	<u><u>\$ 50,876,195</u></u>	<u><u>\$ 4,455,000</u></u>

	Beginning Balance	Additions	2011 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	\$ 42,250,000	\$ -	\$ (815,000)	\$ 41,435,000	\$ 855,000
Indiana Health Facility Financing Authority Bonds - Series 1993	<u>17,835,000</u>	<u>-</u>	<u>(3,100,000)</u>	<u>14,735,000</u>	<u>3,320,000</u>
	60,085,000	-	(3,915,000)	56,170,000	4,175,000
Plus: Unamortized bond premium	534,592	-	(177,153)	357,439	-
Less: Deferred amount on refunding	<u>1,625,844</u>	<u>-</u>	<u>(147,804)</u>	<u>1,478,040</u>	<u>-</u>
Total long-term debt	<u><u>\$ 58,993,748</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,944,349)</u></u>	<u><u>\$ 55,049,399</u></u>	<u><u>\$ 4,175,000</u></u>

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Revenue Bonds Payable

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 1993, payable August 2015 are subject to mandatory redemption through the operation of a sinking fund, which commenced August 15, 2009. The amount of the principal payable at December 31, 2012 and 2011 totals \$11,415,000 and \$14,735,000, respectively. The unamortized bond issue premium at December 31, 2012 and 2011 totals \$211,433 and \$357,439. Interest is payable semiannually at 7.0%.

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

In November 2009, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B in the amount of \$43,095,000. The bonds were issued to refund the IHFFA Hospital Revenue Refunding Bonds, Series 2003. 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 January 2015.

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 loss on bond defeasance was deferred and is being amortized over the life of the Series 2009 Bond issue.

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Notes to Financial Statements December 31, 2012 and 2011

The debt service requirements (excluding bond premium accretion) as of December 31, 2012, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
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	6,721,573	5,465,000	1,256,573
2017	6,830,987	5,770,000	1,060,987
2018 - 2021	28,551,192	26,480,000	2,071,192
	<u>\$ 61,846,075</u>	<u>\$ 51,995,000</u>	<u>\$ 9,851,075</u>

Note 12: Line of Credit Agreement

The Hospital has unsecured taxable line of credit providing up to \$3,000,000 of nonrevolving credit. This line will mature in October 2013 and is expected to be renewed at that time. As of December 31, 2012 and 2011, there were no borrowings against this line of credit.

Note 13: Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreements

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

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Notes to Financial Statements December 31, 2012 and 2011

Terms

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

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2012
\$ 12,130,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (1,901,072)
<u>13,650,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	<u>(1,851,240)</u>
<u>\$ 25,780,000</u>						<u>\$ (3,752,312)</u>

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2011
\$ 12,435,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (1,917,528)
<u>13,995,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	<u>(1,836,244)</u>
<u>\$ 26,430,000</u>						<u>\$ (3,753,772)</u>

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

Fair Value

The fair values of the agreements are based on estimated discounted future cash flows determined using the counterparty's proprietary models based upon financial principles and estimated 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 (\$1,460) and \$1,506,690 for the years ended December 31, 2012 and 2011, respectively, are shown as an adjustment to the carrying amount of the related deferred outflow on the balance sheets.

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Notes to Financial Statements December 31, 2012 and 2011

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, 2012, 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
\$ 620,000	\$ 9,335,000	\$ 15,825,000	\$ -

Credit Risk

The fair value of each swap represents the Hospital's credit exposure to the counterparty as of December 31. Should the counterparties to these transactions fail to perform according to the terms of the swap agreements, the Hospital has a maximum possible loss equivalent to the fair value at that date. To mitigate the potential for credit risk, the swaps are insured by Assured Guaranty Corporation, which was rated A3 and Aa2 by Moody's Investors Service as of December 31, 2012 and 2011. 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.

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Notes to Financial Statements December 31, 2012 and 2011

The change in the Hospital's fair value of interest rate swap agreements during 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ (3,753,772)	\$ (2,247,082)
Change in market value	<u>1,460</u>	<u>(1,506,690)</u>
Balance, end of year	<u><u>\$ (3,752,312)</u></u>	<u><u>\$ (3,753,772)</u></u>

Swap Payments and Associated Debt

Using rates as of December 31, 2012, 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		Interest Rate Swap, Net	Total to be Paid
	Principal	Interest		
2013	\$ 905,000	\$ 1,409,383	\$ 655,955	\$ 2,970,338
2014	955,000	1,377,453	638,529	2,970,982
2015	1,005,000	1,343,443	619,558	2,968,001
2016	5,465,000	1,256,573	600,737	7,322,310
2017	5,770,000	1,060,987	539,461	7,370,448
2018 - 2021	<u>26,480,000</u>	<u>2,071,192</u>	<u>1,201,513</u>	<u>29,752,705</u>
	<u><u>\$ 40,580,000</u></u>	<u><u>\$ 8,519,031</u></u>	<u><u>\$ 4,255,753</u></u>	<u><u>\$ 53,354,784</u></u>

Note 14: Restricted and Designated Net Position

At December 31, 2012 and 2011, restricted net position was available for the following purposes:

	2012	2011
Debt service	\$ 1,812,704	\$ 1,813,102
Capital acquisitions	49,095	99,632
Specific operating activities	<u>7,235</u>	<u>5,833</u>
Total restricted net position	<u><u>\$ 1,869,034</u></u>	<u><u>\$ 1,918,567</u></u>

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Notes to Financial Statements **December 31, 2012 and 2011**

At December 31, 2012 and 2011, approximately \$121 million and \$119 million, respectively, of the Hospital's unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated portion of net position remain under the control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

Note 15: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2019. Total rental expense in 2012 and 2011 for all operating leases was approximately \$1,549,000 and \$730,200, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2012 that have initial or remaining lease terms in excess of one year:

2013	\$ 3,193,222
2014	3,318,311
2015	3,305,960
2016	3,133,507
2017	2,809,056
2018 - 2022	<u>660,800</u>
Future minimum lease payments	<u>\$ 16,420,856</u>

Note 16: 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 5.9% and 3.73% of annual covered payroll for 2012 and 2011, respectively. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2012 and 2011 were \$3,029,002 and \$2,763,725, respectively.

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Notes to Financial Statements December 31, 2012 and 2011

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, 2012 and 2011 were as follows:

	2012	2011
Annual required contribution	\$ 3,029,002	\$ 2,763,725
Interest on net pension obligation	57,905	62,423
Adjustment to annual required contribution	<u>(117,777)</u>	<u>(126,967)</u>
Annual pension cost	2,969,130	2,699,181
Contributions made	<u>3,029,002</u>	<u>2,763,725</u>
Decrease in net pension obligation	(59,872)	(64,544)
Net pension obligation, beginning of year	<u>827,218</u>	<u>891,762</u>
Net pension obligation, end of year	<u><u>\$ 767,346</u></u>	<u><u>\$ 827,218</u></u>

Actuarial valuation date: January 1, 2012
 Actuarial cost method: Projected unit credit
 Amortization method: Level dollar open
 Amortization period: Ten years
 Asset valuation method: Market related value with smoothed value basis

Actuarial Assumptions

Investment rate of return	7.00% for the 2012 and 2011 valuation
Projected future salary increases	3.00% annually; plus merit and promotional percentage increases based on age or years of service

Asset Valuation Method

The actuarial values of assets are valued on a smoothed value basis. Under this method, gains and losses on the market value of assets are smoothed over 5 years. Notwithstanding the above, the adjusted market value shall never be greater than 115%, nor less than 85%, of the actual market value. The measurement of the assets was changed for the January 1, 2011 date from an adjusted market value basis which resulted in a change in the unfunded actuarial accrued liability of approximately \$3.9 million.

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Notes to Financial Statements December 31, 2012 and 2011

Three-Year Trend Information

Years Ended December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 4,288,375	101.5%	\$ 891,762
2011	2,699,181	102.4%	827,218
2012	2,969,130	102.0%	767,346

Funded Status

As of January 1, 2012, the most recent actuarial valuation date, the plan was 89.8% funded. The actuarial accrued liability for benefits was \$42.5 million and the actuarial value of assets was \$38.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$73.5 million and the ratio of UAAL to the covered payroll was 5.9%.

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 2012 and 2011 was \$549,259 and \$493,239, 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, 2012 and 2011, the liability recorded for deferred compensation earned by the participants was \$2,339,548 and \$1,647,265.

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Notes to Financial Statements **December 31, 2012 and 2011**

Note 17: Commitments and Contingencies

Commitments

As of December 31, 2012, the Hospital had material commitments for acquisition of capital assets totaling approximately \$2 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 which provides cost-effective medical malpractice insurance coverage for the physicians in Bartholomew County and the surrounding region. The Hospital's maximum contingent liability under the pro rata guarantee 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.

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Notes to Financial Statements December 31, 2012 and 2011

Note 18: Related Party Transactions

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

Corporate Name/Nature of Relationship	2012	2011
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	\$ 4,699,044	\$ 4,699,044
Rent expense	210,873	208,772
Insurance expense	477,864	506,367
Note receivable	5,741,518	6,508,176
Contributions to related organizations	3,796,121	2,358,735
Investment income	157,984	166,581
Contract services reimbursed	491,000	-
Employee benefit reimbursement received	344,446	356,794
Miscellaneous income	455,737	493,287
Other receivables	36,505	59,975
Accounts payable	604,740	72,723
Notes receivable (including interest) due from SIHM are made up of the following:		
Note due on demand, interest paid at prime	\$ 44,999	\$ 81,000
Note due on demand, interest paid at prime plus 1%	301,525	1,032,183
Long-term note due July 1, 2012, interest of 4%	3,294,994	3,294,993
Interest-free long-term note due May 1, 2017	2,100,000	2,100,000
	<u>\$ 5,741,518</u>	<u>\$ 6,508,176</u>
Columbus Regional Hospital Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 669,856	\$ 635,013
Contributions received from the Foundation	123,930	238,325
Other receivables	46,362	214,631
Hospice of South Central Indiana, Inc.		
Hospital purchases services		
Operating expenses	6,000	60,000
Miscellaneous sales to Hospice	179,653	179,317
Other receivables	179,446	206,624

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Notes to Financial Statements **December 31, 2012 and 2011**

Note 19: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

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

Note 20: Subsequent Event

Subsequent to year end, the Hospital acquired the assets and operations of an outpatient diagnostic center. The transaction, which was effective on January 1, 2013, required a deposit to be paid in advance of the effective date. The deposit of \$1.4 million is reported in other current assets.

**Required Supplemental Information
(Unaudited)**

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Required Supplementary Pension Plan Information
December 31, 2012
(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
1/1/2010	\$ 29,434,064	\$ 40,961,008	\$ 11,526,944	71.9%	\$ 79,527,725	14.5%
1/1/2011	38,131,649	40,885,202	2,753,553	93.3%	74,175,551	3.7%
1/1/2012	38,201,350	42,520,433	4,319,083	89.8%	73,536,786	5.9%

Schedule of Employer Contributions

Year Ended December 31	Annual Pension Cost (APC)	Required Contribution (ARC)	Amount Contributed	Percentage of ARC Contributed	Net Pension Obligation
2010	\$ 4,288,375	\$ 4,354,497	\$ 4,354,497	100%	\$ 891,762
2011	2,699,181	2,763,725	2,763,725	100%	827,218
2012	2,969,130	3,029,002	3,029,002	100%	767,346

Supplementary Information

Columbus Regional Hospital
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Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/Program Federal Agency/Pass-Through Agency	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Homeland Security/Federal Emergency Management Agency			
Disaster Grant - Public Assistance	97.036	FEMA-1766-DR-IN	\$ 587,190
U.S. Department of Health and Human Services/Indiana State Department of Health			
National Bioterrorism Hospital Preparedness Program	93.889	BHP 759	<u>81,662</u>
			<u>\$ 668,852</u>

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.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Columbus Regional Hospital (Hospital), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance

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*.

Other Matters

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 14, 2013.

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

BKD, LLP

Indianapolis, Indiana
May 14, 2013

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Columbus Regional Hospital (Hospital) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above.

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 on compliance for the Hospital's major federal program. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Columbus Regional Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of Columbus Regional Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
May 14, 2013

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed
2. The independent auditor's report on internal control over financial reporting described:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No
4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:
☒ Unmodified ☐ 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
Disaster Grant - Public Assistance	97.036

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

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, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No matters are reportable.	None

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	None

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Reference Number	Finding	Status
No matters are reportable.		