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June 8, 2018

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

We have reviewed the audit report of Columbus Regional Hospital prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Columbus Regional Hospital as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Auditor's Report and Financial Statements
December 31, 2017 and 2016

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

Report on the Financial Statements

We have audited the accompanying balance sheets of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Regional Hospital, as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 1, 2018, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Hospital's 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 1, 2018

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2017
(Unaudited)

Introduction

Columbus Regional Hospital (CRH or Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a 10-county region in southeastern Indiana. CRH's commitment to serving the community and being at the forefront of quality patient care is nationally recognized, as noted with numerous recognitions over the recent years, including listing in the Becker's Review Top 100 Community Hospitals and reception of the Privacy Excellence Award from Fairwarning, Inc.

The Hospital also operates eight long-term care facilities in Indiana through various lease and management agreements. These facilities had 2,535 admits and 320,708 patient days in 2017. These facilities provide inpatient and therapy services through their respective geographic areas, and support CRH's mission to provide quality care and services to the facilities' residents. In addition, the Hospital owns two wholly owned subsidiaries – Columbus Diagnostic Imaging (CDI) and Columbus Regional Health Physicians (CRHP) – and several joint ventures, which are generally accounted for under the equity method if the ownership is greater than 20%, and under the cost method if ownership is less than 20%. This includes a joint venture called Inspire Health Partners, a clinically integrated network to further improve quality and access in the region.

CRH has one of the highest home county market shares in the state, and the Hospital's 10-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.

CRH provides emergency and surgical services and comprehensive care in numerous specialty areas. The Hospital has about 1,600 employees, 225 physicians on medical staff, and more than 250 volunteers. The entire health system that makes up CRH has about 2,400 employees.

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

Year	Inpatients	Outpatients	Total
2017	9,221	254,268	263,489
2016	8,961	244,884	253,845
2015	9,020	239,176	248,196

As the health leader in its community and region, CRH is establishing the best course for its future that provides patients with the very best care and service at the best value. 2017 was a year of significant progress and improvement across CRH. Major efforts include the implementation of the new Epic Electronic Medical Record (EMR) within the CRHP practice locations, key service line growth and physician recruitment, expansion of the regional presence for radiation oncology services, and new leadership positions and expansion of roles across the health system to further support our efforts to become a regional integrated health system and strategic growth.

Also in 2017, CRH also celebrated its 100-year anniversary. The organization has experienced remarkable growth during the last 100 years, and the long-term strategic goals are to deliver increasing value to the communities served and to grow as a regional, independent, integrated health system.

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 it works toward its mission: “To improve the health and well-being of the people we serve.”

People

CRH recognizes the strategic importance of having a committed and satisfied workforce, as it works to recruit and retain high performing staff. CRH implemented a new employee and physician engagement approach that aligns efforts to improve engagement across the system, between staff, leaders and providers. The baseline employee survey was conducted by Gallup in May 2017 and the baseline physician survey was conducted in November 2017. The Hospital achieved its highest completion rate at 68% for the physician survey, and also saw an 83% completion rate among employees.

- More than 290 employees were hired in 2017.
- In 2017, the Hospital continued to reinvigorate retention and recruitment efforts by devoting a more structured approach, including devoting more resources to nursing education in the community and surrounding areas, continual supply and demand data analysis and action, graduate capture tactics and employee growth and further education initiatives.
- CRH maintained its focus on employee wellness through its Healthy Me program with incentives, health programs and ongoing education opportunities. The Healthy Me program offered its second annual marathon training program with a record number of participants who completed one of the races in the Mill Race Marathon. Healthy Me risk-factor focus areas continue to be: nutrition, fitness, cancer, coronary, cholesterol, blood pressure and smoking.
- Volunteers are important members of CRH’s extended workforce and graciously donate their time to support the mission of the Hospital. Columbus Regional Hospital volunteers donated more than 25,000 hours to CRH in 2017, and increased the number of fundraisers to benefit Hospital programs and the healing environment initiative.

Service Excellence

CRH saw strong results in 2017 across all main clinical service areas that resulted in strong patient and family experience levels.

- CEO & President Jim Bickel received the Indiana Hospital Association's Distinguished Service Award.
- CRH implemented a lung screening program, offering low-cost, low-dose imaging scans for patients who meet pre-determined qualifications. The program led to the creation of the Lung Nodule Review Board (LNRB), a team of multidisciplinary providers including oncologists, radiologists and surgeons, which review each scan and determine care course of action. Low-Dose Lung Screening and the LNRB were implemented in February 2017. In 2017, 529 scans were completed with 310 cases referred to the LNRB, resulting in 30 diagnosed cancer cases.
- CRH introduced \$49 heart scans in May, and a total of 974 patients had received scans by the end of the year.
- Cardiovascular services launched ValveNet to identify and improve valve disease.
- The Board of Trustees approved a new Hybrid OR at the end of 2017; construction of the new surgical suite will take place in early 2018.
- At the end of 2017, the Board of Trustees approved a 3T MRI machine to be added at CDI. 3T MRI is the newest technology in clinical MRI and is considered the preferred technology for many specialty cases.
- The Medication Management Clinic (MMC) opened in April and moved to its new location near the Emergency Department in mid-December. The Clinic is staffed by a team of pharmacists who have all received additional certification in anticoagulation management, including Coumadin management. By providing customized education, the MMC helps patients receive the most benefit from their medications while minimizing side effects and complications. The pharmacists see more than 300 appointments monthly.
- The Breast Health Center began performing 3D mammography with the addition of two 2D/3D breast tomosynthesis units and a 2D/3D prone biopsy table. The new equipment enables the Breast Health Center to offer patients the latest technology in breast imaging. The Radiologists are able to more clearly see through dense breast tissue, resulting in fewer unnecessary recalls and biopsies and higher patient satisfaction.
- The Cancer Center opened a new High-Dose Radiation (HDR) Brachytherapy Suite in late 2017. The new suite was especially constructed to accommodate the unique treatment aspects of HDR brachytherapy. The suite offers patients a quiet and peaceful space that is also warm and bright.
- The Breast Health Center received a \$45,000 grant from the Susan G. Komen Foundation for its Mammography Assistance Program.
- The Lung Institute began offering interventional pulmonology services including Ridged Bronchoscopy, Cryotherapy and Brachytherapy.
- The Endoscopy Center began offering Endoscopic Ultrasound (EUS). EUS is a procedure used to evaluate known abnormalities including lumps or lesions detected with prior endoscopy procedures or CT scans and is a new service at CRH.
- CRH received an eHealthcare Leadership distinction award for our 100-year anniversary video.

- CRH received the Centennial Business Award from the Indiana Historical Society.
- The CRH Outpatient Lab opened in May, in its new location, closer to a main entrance for a better patient experience. In addition to new physical space, processes and workflows were changed based on patient feedback regarding improvement opportunities.
- Laboratory Services implemented new chemistry analyzers and automation equipment upgrades. These analyzers account for approximately half of the tests that are performed in the main laboratory (50,000 tests each month). This significant project not only involved replacement of large and complex equipment, but also complicated information system integration for efficient, automated line operations. This project was completed in July 2017.

Quality & Safety Performance

Patient safety and quality are always the highest priority for CRH and our work is recognized by some of these most recent accomplishments. In 2017, the Hospital achieved at or better than a 7.6 readmission rate, which is on par with national averages:

- The Cancer Center received accreditation from the American College of Surgeons.
- CRH received its three-year Seal of Excellence reaccreditation from HFAP (Healthcare Facilities Accreditation Program).
- The American College of Cardiology awarded CRH with its Platinum Performance Achievement Award for quality standards of care.
- The Sleep Diagnostic Center achieved a three-year accreditation from the Accreditation Commission for Health Care.
- Inpatient rehabilitation received the Press Ganey Guardian of Excellence Award for patient satisfaction.
- The Inpatient Dialysis Unit was recognized as a 5-Diamond Patient Safety Facility by the national 5-Diamond Program.
- The Wound Center was named a Center of Distinction from Healogics.
- Verigene testing for positive blood cultures went live in November in Laboratory Services. This DNA detection technology allows bacteria to be identified in two hours instead of two days and facilitates appropriate antibiotic administration for our sepsis patients.
- The Birthing Center Received a Blue Distinction + for Maternal Care award from Anthem Blue Cross Blue Shield.

Growth & Innovation

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

- In 2017, CRH created and sponsors the Alliance for Substance Abuse Progress in Bartholomew County (ASAP) in collaboration with city and county officials. The objective of ASAP is to create a community response to significantly mitigate the negative impact of substance abuse on our community and its people. ASAP is being overseen within the context of CRH's Healthy Communities Council (see the below framework).

- CRH received a first place award for innovation and design thinking from Design Management Institute.
- CRH helped start a Nurse Practitioner (NP) program at IUPUC. The program will result in a local pipeline of NPs to help meet our future care provider needs. The first cohort will graduate in May 2020, and CRH is helping to develop the program to ensure it produces the caliber and quality of medical professionals required by our physicians, and annually secures five spots for CRH employees interested in pursuing this degree.
- The Epic EMR training and implementation took place across the CRHP practices throughout most of 2017, with the go-live on November 1. The transition to a unified medical record across our practice locations strengthens care coordination and communication among providers and with patients.
- Physician recruitment continued to see solid improvement with 14 new providers to the medical staff including key areas of oncology, emergency medicine, cardiology, surgery and primary care.
- CRH began offering professional services in the areas of Radiation Oncology through partnerships in Seymour and New Albany, Indiana.

Financial Highlights

Columbus Regional Hospital's financial performance and activities for the year ended December 31, 2017 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

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

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

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

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

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

Selected Financial Data and Statistics (Dollars in Thousands)						
	2017		2016		2015	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	\$ 412,093	100.0%	\$ 397,253	100.0%	\$ 345,281	100.0%
Salaries and benefits	153,573	37.3%	142,955	36.0%	91,215	26.4%
Supplies and drugs	54,819	13.3%	51,189	12.9%	43,497	12.6%
Purchased services and other operating expenses	180,940	43.9%	164,210	41.3%	164,830	47.7%
Depreciation and amortization	20,330	4.9%	19,336	4.9%	16,977	4.9%
Total expenses	<u>409,662</u>	99.4%	<u>377,690</u>	95.1%	<u>316,519</u>	91.7%
Income from operations	2,431	0.6%	19,563	4.9%	28,762	8.3%
Nonoperating income (expense), net	14,495	3.5%	5,236	1.3%	(19,660)	-5.7%
Capital grants	<u>-</u>	0.0%	<u>-</u>	0.0%	<u>(5,697)</u>	-1.6%
Increase in net position	<u>\$ 16,926</u>	4.1%	<u>\$ 24,799</u>	6.2%	<u>\$ 3,405</u>	1.0%
Cash Flow Data						
Cash provided by operating activities	\$ 37,694		\$ 21,201		\$ 54,380	
Cash used in noncapital activities	(1,477)		(1,698)		(16,089)	
Cash used in capital and related financing activities	(31,299)		(26,641)		(41,027)	
Cash used in investing activities	(4,870)		(2,734)		(21,297)	
Financial Position						
Current assets	\$ 111,010		\$ 112,387		\$ 100,181	
Capital assets, net	141,815		140,626		135,487	
Other noncurrent assets and deferred outflows of resources	<u>216,525</u>		<u>192,625</u>		<u>182,664</u>	
Total assets and deferred outflows of resources	<u>\$ 469,350</u>		<u>\$ 445,638</u>		<u>\$ 418,332</u>	
Long-term debt, including current portion	\$ 61,970		\$ 67,834		\$ 73,200	
Other liabilities and deferred inflows of resources	<u>66,778</u>		<u>54,126</u>		<u>54,832</u>	
Total liabilities and deferred inflows of resources	<u>\$ 128,748</u>		<u>\$ 121,960</u>		<u>\$ 128,032</u>	
Unrestricted net position	\$ 259,548		\$ 249,306		\$ 204,870	
Net investment in capital assets	79,844		72,792		75,063	
Restricted net position	<u>1,211</u>		<u>1,579</u>		<u>10,368</u>	
Total net position	<u>\$ 340,603</u>		<u>\$ 323,677</u>		<u>\$ 290,301</u>	
Days cash on hand	217.8		219.8		246.5	
Hospital Operating Data						
Number of beds (available for use)	232		205		172	
Inpatient discharges	9,221		8,961		9,020	
Average daily census	95		92		95	
Average length of stay	3.8		3.7		3.8	
Occupancy	40%		43%		53%	
Inpatient case mix	1.4658		1.4209		1.4204	
Outpatient visits	254,268		244,884		239,176	

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 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 upward over the past three years. Governmental reimbursement policies continue to limit or reduce the levels of payments from these programs.

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

	2017	2016	2015
Medicare	49.3%	47.8%	48.1%
Medicaid	15.3%	14.9%	13.0%
Managed care plans	28.9%	30.4%	31.0%
Other	6.4%	6.9%	7.9%

Revenues for the year ended December 31, 2017 increased 3.7% to \$412.1 million from \$397.3 million in 2016. 2016 revenues were up, approximately 15.1%, when compared to 2015 revenues, which totaled \$345.3 million. The increased revenue for 2017 and 2016 can be attributed to new services, price adjustments and the integration of the wholly owned subsidiary Columbus Regional Health Physicians, LLC (CRHP). Inpatient discharges over the past three years have been trending steady. Outpatient volumes have been trending upward over the past three years as registrations for 2017 were up 3.8% from 2016 and 6.3% from 2015.

Total operating expenses in 2017 are \$409.7 million, up 8.5% from \$377.7 million in 2016 and up 29.4% from \$316.5 million in 2015. The greatest driver of increased operating expenses for 2017 and 2016 is the integration of the wholly owned subsidiary, CRHP, which added operating expenses of \$69.0 and \$60.4 million, respectively. Salaries and benefits for 2017 increased 7.5%, while supplies increased 7.1%. Purchased services for 2017 increased 10.5% and depreciation was up 5.1%. 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 2017, 2016 and 2015 totaled \$2.4 million, \$19.6 million, and \$28.8 million, respectively. Net non-operating income for 2017 totaled \$14.5 million, which included investment gains, interest expense, and contributions to related organizations. Net non-operating activity amounted to \$5.2 million in 2016 and a loss of \$19.7 million in 2015. The increase in net position for 2017 totaled \$16.9 million, compared to increases in net position that totaled \$24.8 million for 2016 and \$3.4 million for 2015.

Financial Position

Cash provided by operating activities in 2017 totaled \$37.7 million. This compares to cash provided by operating activities of \$21.2 million in 2016 and \$54.4 million in 2015. Capital expenditures totaled \$23.9 million for 2017 and included a new electronic medical record system for CRHP. Capital expenditures for 2016 and 2015 totaled \$19.7 million and \$30.7 million, respectively. Construction in progress at year-end for 2017, 2016, and 2015 was \$4.2 million, \$5.1 million and \$15.7 million, respectively. For additional information regarding significant capital asset activity, refer to Note 10 in the notes to the financial statements.

Current assets totaled \$111.0 million for 2017, compared to \$112.4 million in 2016 and \$100.2 million in 2015. The \$12.2 million increase for 2016 was largely due to the integration of the wholly owned subsidiary, CRHP, which had current assets totaling \$8.9 million. Other noncurrent assets, including noncurrent cash and investments, increased to \$215.1 million for 2017, compared to \$190.5 million for 2016 and \$179.8 million for 2015. The increases can be attributed to the recovery of investment market values over the prior year. A summary of other noncurrent assets is presented in the table below:

Noncurrent Assets (dollars in millions)	2017	2016	2015
Internally designated funds	\$ 193.8	\$ 177.0	\$ 169.9
Other assets	<u>21.3</u>	<u>13.5</u>	<u>9.9</u>
Total noncurrent assets (excluding capital assets)	<u>\$ 215.1</u>	<u>\$ 190.5</u>	<u>\$ 179.8</u>

The Hospital had \$62.0 million in long-term debt at December 31, 2017 compared to \$67.8 million for 2016 and \$73.2 million for 2015. For additional information regarding significant long-term debt activity, refer to Note 13 in the notes to the financial statements.

Economic Outlook

The healthcare industry continues to be challenged with how the new era of healthcare reform will impact the overall care delivery model for hospitals, physicians and other healthcare providers. The traditional model of fee-for-service continues for hospitals and physicians; however, the Hospital and CRHP continue to work toward further incorporating patient-centered care and pay-for-performance practices that entail provider-recognition models for exemplary patient service and satisfaction.

The economic outlook for the geographic location where Columbus Regional Hospital is positioned in Columbus, Indiana remains very positive. Columbus, Indiana is home to more mechanical engineers and highly skilled workers per capita than any other community in the United States, due to the global headquarters office of Cummins, Inc. This contributes to Columbus having the 25th highest per capita income among the 381 metropolitan areas measured by the US Bureau of Economic Analysis. Columbus also boasts an extremely low unemployment rate of around 3 percent. However, Columbus has a diverse socioeconomic population, with nearly 50 percent of school children qualifying for free-or reduced-lunch rates in Columbus schools. Columbus also enjoys a diverse ethnic population – in fact, the overall Columbus workforce holds the second highest number of H1b Visas in the nation.

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

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional information, contact the Hospital Chief Financial Officer's Office at 2400 East 17th Street, Columbus, IN, 47201.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Balance Sheets December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 45,367,166	\$ 44,950,657
Patient accounts receivable, less allowance for uncollectible accounts (\$9,007,354 in 2017 and \$6,715,788 in 2016)	46,730,401	46,321,679
Other receivables	8,124,908	11,571,241
Inventories	5,037,719	4,022,534
Prepaid expenses	5,750,172	5,142,857
Trustee-held funds, current	-	377,608
Total current assets	<u>111,010,366</u>	<u>112,386,576</u>
Noncurrent Cash and Investments		
Internally designated	187,982,367	171,840,538
Deferred compensation investments	4,609,764	3,967,329
Trustee-held funds, less current	1,208,834	1,199,262
Total noncurrent cash and investments	<u>193,800,965</u>	<u>177,007,129</u>
Capital Assets, Net	<u>141,814,609</u>	<u>140,625,863</u>
Other Assets		
Notes receivable, related party	14,105,497	6,567,996
Joint venture investments, notes receivable, and other	7,144,730	6,868,557
Total other assets	<u>21,250,227</u>	<u>13,436,553</u>
Total assets	467,876,167	443,456,121
Deferred Outflows of Resources	<u>1,474,506</u>	<u>2,181,099</u>
Total assets and deferred outflows of resources	<u>\$ 469,350,673</u>	<u>\$ 445,637,220</u>

Liabilities and Net Position

	2017	2016
Current Liabilities		
Accounts payable	\$ 24,691,267	\$ 22,674,270
Salaries, wages and related liabilities	13,950,944	12,598,185
Estimated third-party payer settlements	1,766,190	2,477,178
Other accrued liabilities	20,876,035	10,967,308
Current portion of long-term debt	6,095,327	5,824,118
Total current liabilities	67,379,763	54,541,059
Deferred Compensation Liability	4,609,764	3,967,329
Fair Value of Interest Rate Swap Agreements	883,290	1,442,079
Long-Term Obligations	55,875,000	62,009,666
Total liabilities	128,747,817	121,960,133
Net Position		
Unrestricted	259,547,792	249,306,190
Net investment in capital assets	79,844,282	72,792,079
Restricted	1,210,782	1,578,818
Total net position	340,602,856	323,677,087
Total liabilities and net position	\$ 469,350,673	\$ 445,637,220

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$11,206,010 in 2017 and \$13,968,053 in 2016	\$ 406,292,512	\$ 391,123,301
Other operating revenue	5,800,445	6,129,978
Total operating revenue	<u>412,092,957</u>	<u>397,253,279</u>
Operating Expenses		
Salaries and wages	121,550,335	113,114,405
Employee benefits	32,022,546	29,841,120
Fees	16,735,715	16,019,034
Supplies	54,819,002	51,188,951
Purchased services	142,762,296	129,171,116
Depreciation and amortization	20,330,408	19,335,659
Insurance	5,084,943	5,158,640
Hospital assessment fee	10,216,717	8,141,726
Other	6,139,827	5,719,308
Total operating expenses	<u>409,661,789</u>	<u>377,689,959</u>
Operating Income	<u>2,431,168</u>	<u>19,563,320</u>
Nonoperating Income (Expenses)		
Investment return	18,348,533	8,599,826
Interest expense	(1,712,638)	(1,580,974)
Contributions to related organizations	(696,855)	(783,599)
Other nonoperating expense	(1,444,439)	(999,674)
Total nonoperating income	<u>14,494,601</u>	<u>5,235,579</u>
Increase in Net Position	16,925,769	24,798,899
Net Position, Beginning of Year	<u>323,677,087</u>	<u>298,878,188</u>
Net Position, End of Year	<u><u>\$ 340,602,856</u></u>	<u><u>\$ 323,677,087</u></u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Cash received from patients and third-party payers	\$ 405,172,802	\$ 385,072,571
Cash payments to employees for services	(143,048,542)	(151,612,076)
Cash payments to suppliers for goods and services	(233,676,707)	(216,986,740)
Other cash received	<u>9,246,778</u>	<u>4,727,413</u>
Net cash provided by operating activities	<u>37,694,331</u>	<u>21,201,168</u>
Noncapital Financing Activities		
Contributions to related parties	(696,855)	(783,599)
Other nonoperating	<u>(780,053)</u>	<u>(914,546)</u>
Net cash used in noncapital financing activities	<u>(1,476,908)</u>	<u>(1,698,145)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(5,863,457)	(5,519,243)
Interest paid on long-term debt	(1,564,834)	(1,433,170)
Acquisition and construction of capital assets	<u>(23,870,836)</u>	<u>(19,688,216)</u>
Net cash used in capital and related financing activities	<u>(31,299,127)</u>	<u>(26,640,629)</u>
Investing Activities		
Interest and dividend income	5,961,964	5,140,197
Purchases of investments in assets limited as to use	(28,695,515)	(23,239,436)
Disbursements for notes receivable	(7,805,740)	(3,660,023)
Collections of notes receivable	729,213	570,353
CRHP merger	-	4,044,503
Sales of investments in assets limited as to use	<u>24,940,255</u>	<u>14,410,000</u>
Net cash used in investing activities	<u>(4,869,823)</u>	<u>(2,734,406)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	48,473	(9,872,012)
Cash and Cash Equivalents at Beginning of Year	<u>46,527,527</u>	<u>56,399,539</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 46,576,000</u></u>	<u><u>\$ 46,527,527</u></u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 45,367,166	\$ 44,950,657
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	<u>1,208,834</u>	<u>1,576,870</u>
Total cash and cash equivalents	<u><u>\$ 46,576,000</u></u>	<u><u>\$ 46,527,527</u></u>
Reconciliation of Operating Income to Net Cash		
 Provided by Operating Activities		
Operating income	\$ 2,431,168	\$ 19,563,320
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	20,330,408	19,335,659
Provision for uncollectible accounts	11,206,010	13,968,053
Change in assets and liabilities		
Patient accounts receivable and third-party settlements	(12,325,720)	(20,018,783)
Other assets	1,086,686	(1,819,224)
Net pension liability	-	(146,893)
Current liabilities	<u>14,965,779</u>	<u>(9,680,964)</u>
Net cash provided by operating activities	<u><u>\$ 37,694,331</u></u>	<u><u>\$ 21,201,168</u></u>
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	\$ 2,584,718	\$ 1,776,885
Disposals of long-term care property and equipment through a reduction of management fees payable	2,495,129	-

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2017 and 2016**

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

Nature of Operations and Reporting Entity

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

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

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

Effective January 2016, the operations of the Physician's Practice Organization, Inc. (PPO), which was consolidated into Southeastern Indiana Health Management, Inc. (SIHM), a related party of the Hospital, were ceased and a new organization called Columbus Regional Health Physicians, LLC (CRHP) was formed. This transaction is described in more detail in Note 2 to the financial statements.

In accordance with this GASB Statement No. 61, *The Financial Report Entity*, the financial statements include the financial statements of Columbus Regional Health Physicians, LLC; Multi-County Health Network, LLC (MCHN), which ceased operations in 2016; and Columbus Area Radiology, LLC (dba Columbus Diagnostic Imaging, or CDI). The primary government appoints a voting majority of these entities' boards of directors and a financial benefit/burden relationship exists between the Hospital and these entities. Although legally separate from the boards, these entities are reported as if they were a part of the Hospital, because they provide services entirely, or almost entirely, to the Hospital. Separate financial statements are not issued for these entities.

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 and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income, interest on capital assets-related debt, and contributions to related organizations are included in nonoperating revenues and expenses.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, 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

For joint venture activities in which the Hospital's ownership percentage is 20% or more, the investment is recorded in accordance with the equity method of accounting. For joint ventures in which the Hospital's ownership percentage is less than 20%, the cost method is used. 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, 2017 and 2016**

Inventories

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

Deferred Compensation Investments

Investments related to a deferred compensation plan, which is available to certain highly compensated employees of CRHP, are carried at fair value. The investments are held by CRHP on behalf of the employees and are recorded as both an asset and a liability on the balance sheets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

Deferred Outflows of Resources

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

Losses incurred in connection with the refunding of various long-term debt and deferred are amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

The composition of deferred outflows of resources was as follows at December 31:

	2017	2016
Deferred losses on debt refundings	\$ 591,216	\$ 739,020
Fair value of interest rate swap agreements	883,290	1,442,079
Total deferred outflows of resources	<u>\$ 1,474,506</u>	<u>\$ 2,181,099</u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2017 and 2016

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 to 39 PTO days upon attaining specified years of employment. Part-time employees earn PTO hours on a pro rata basis on the specified years of employment. PTO days can be used for vacation, illness or bereavement.

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

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.

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.

When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first and then unrestricted resources as they are needed.

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.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2017 and 2016

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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 and CRHP are exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and CRHP are subject to federal income tax on any unrelated business taxable income. MCHN and CDI, both of which are limited liability companies, are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

Grants and Contributions

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

Electronic Health Records Incentive Program

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

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2017 and 2016

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 2016, the Hospital completed the third-year requirements under the Medicare program and has recorded approximately \$997,000, which is included in the other operating revenue in the statement of revenues, expenses and changes in net position. CRHP recorded approximately \$519,000, which is also included in the other operating revenue in the statement of revenues, expenses and changes in net position.

In 2017, the Hospital completed the fourth-year requirements under the Medicare program and has recorded approximately \$492,000, which is included in the other operating revenue in the statement of revenues, expenses and changes in net position. CRHP recorded approximately \$22,000, which is also included in the other operating revenue in the statement of revenues, expenses and changes in net position.

Long-Term Nursing Facilities

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

Effective September 2017, the third-party manager of five of the Hospital's nursing homes changed, and in conjunction with this, new lease and management agreements were established.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net position.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2017 and 2016

Note 2: Merger

On January 1, 2016, the Hospital merged the assets of Physician Practice Organization, Inc. (PPO), through the formation of Columbus Regional Health Physicians, LLC (CRHP), a blended component unit into the Hospital. Prior to January 1, 2016, Southeastern Indiana Health Management, Inc. (SIHM), a related party to the Hospital, was the sole corporate member of PPO. PPO primarily operated physician operations in the Columbus area and supported the Hospital. The primary purpose of the merger is to improve physician and hospital alignment and better serve the Hospital's service area.

The merger included all assets of PPO, including cash and cash equivalents, accounts receivable, supply inventories, prepaid assets, certain equipment and real estate. In addition, the Hospital assumed liabilities for accounts payable, accrued expenses and notes payable. The following is a financial summary of the merged entity as of January 1, 2016:

	<u>2016</u>
Current assets	\$ 14,114,297
Capital assets, net	<u>2,869,532</u>
Total assets	<u><u>\$ 16,983,829</u></u>
Current liabilities	\$ 8,353,675
Long-term liabilities	<u>52,683</u>
Total liabilities	8,406,358
Net position	<u>8,577,471</u>
Total liabilities and net position	<u><u>\$ 16,983,829</u></u>

Included within the merged assets was a net receivable and payable from the Hospital of approximately \$859,000, which upon merger was eliminated in blended financial reporting.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Blended Component Units

The financial statements include the Hospital, as well as the blended component unit accounts of Columbus Regional Health Physicians, LLC (CRHP), Multi-County Health Network LLC (MCHN) and Columbus Diagnostic Imaging (CDI), as discussed in Note 1.

The following is a financial summary of the Hospital and the component units as of December 31, 2017:

	2017					
	Hospital	CRHP	MCHN	CDI	Eliminations	Total
Total current assets	\$ 100,522,180	\$ 10,653,243	\$ -	\$ 682,381	\$ (847,438)	\$ 111,010,366
Total noncurrent assets	349,622,848	8,665,067	-	103,803	(51,411)	358,340,307
Total assets	<u>\$ 450,145,028</u>	<u>\$ 19,318,310</u>	<u>\$ -</u>	<u>\$ 786,184</u>	<u>\$ (898,849)</u>	<u>\$ 469,350,673</u>
Total liabilities	\$ 119,409,282	\$ 10,014,196	\$ -	\$ 223,188	\$ (898,849)	\$ 128,747,817
Net position	<u>330,735,746</u>	<u>9,304,114</u>	<u>-</u>	<u>562,996</u>	<u>-</u>	<u>340,602,856</u>
Total liabilities and net position	<u>\$ 450,145,028</u>	<u>\$ 19,318,310</u>	<u>\$ -</u>	<u>\$ 786,184</u>	<u>\$ (898,849)</u>	<u>\$ 469,350,673</u>
Operating revenue	\$ 372,966,706	\$ 40,453,508	\$ -	\$ 2,174,587	\$ (3,501,844)	\$ 412,092,957
Operating expenses	(341,520,362)	(69,035,704)	-	(2,607,567)	3,501,844	(409,661,789)
Nonoperating income (expenses)	14,678,945	(184,344)	-	-	-	14,494,601
Equity transfer	<u>(30,636,587)</u>	<u>30,483,564</u>	<u>(34,901)</u>	<u>187,924</u>	<u>-</u>	<u>-</u>
Change in net position	15,488,702	1,717,024	(34,901)	(245,056)	-	16,925,769
Net position, beginning of year	<u>315,247,044</u>	<u>7,587,090</u>	<u>34,901</u>	<u>808,052</u>	<u>-</u>	<u>323,677,087</u>
Net position, end of year	<u>\$ 330,735,746</u>	<u>\$ 9,304,114</u>	<u>\$ -</u>	<u>\$ 562,996</u>	<u>\$ -</u>	<u>\$ 340,602,856</u>

	2017					
	Hospital	CRHP	MCHN	CDI	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 72,088,850	\$ (34,160,987)	\$ (62,998)	\$ (170,534)	\$ -	\$ 37,694,331
Net cash used in noncapital financing activities	(1,298,169)	(178,739)	-	-	-	(1,476,908)
Net cash used in capital and related financing activities	(29,723,938)	(1,526,969)	-	(48,220)	-	(31,299,127)
Net cash provided by (used in) investing activities	<u>(35,353,387)</u>	<u>30,483,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,869,823)</u>
Net increase (decrease) in cash	5,713,356	(5,383,131)	(62,998)	(218,754)	-	48,473
Cash and cash equivalents at beginning of year	<u>43,550,402</u>	<u>2,323,133</u>	<u>62,998</u>	<u>590,994</u>	<u>-</u>	<u>46,527,527</u>
Cash and cash equivalents at end of year	<u>\$ 49,263,758</u>	<u>\$ (3,059,998)</u>	<u>\$ -</u>	<u>\$ 372,240</u>	<u>\$ -</u>	<u>\$ 46,576,000</u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2017 and 2016

The following is a financial summary of the Hospital and the component units as of December 31, 2016:

	2016					
	Hospital	CRHP	MCHN	CDI	Eliminations	Total
Total current assets	\$ 102,716,091	\$ 8,931,418	\$ 62,998	\$ 884,471	\$ (208,402)	\$ 112,386,576
Total noncurrent assets	325,856,743	7,351,554	-	142,105	(99,758)	333,250,644
Total assets	<u>\$ 428,572,834</u>	<u>\$ 16,282,972</u>	<u>\$ 62,998</u>	<u>\$ 1,026,576</u>	<u>\$ (308,160)</u>	<u>\$ 445,637,220</u>
Total liabilities	\$ 113,325,790	\$ 8,695,882	\$ 28,097	\$ 218,524	\$ (308,160)	\$ 121,960,133
Net position	<u>315,247,044</u>	<u>7,587,090</u>	<u>34,901</u>	<u>808,052</u>	<u>-</u>	<u>323,677,087</u>
Total liabilities and net position	<u>\$ 428,572,834</u>	<u>\$ 16,282,972</u>	<u>\$ 62,998</u>	<u>\$ 1,026,576</u>	<u>\$ (308,160)</u>	<u>\$ 445,637,220</u>
Operating revenue	\$ 356,226,705	\$ 40,575,778	\$ -	\$ 1,972,880	\$ (1,522,084)	\$ 397,253,279
Operating expenses	(315,915,168)	(60,378,060)	(170,118)	(2,427,781)	1,201,168	(377,689,959)
Nonoperating income (expenses)	5,065,468	(150,805)	-	-	320,916	5,235,579
Equity transfer	(19,866,968)	18,962,706	175,758	728,504	-	-
Change in net position	<u>25,510,037</u>	<u>(990,381)</u>	<u>5,640</u>	<u>273,603</u>	<u>-</u>	<u>24,798,899</u>
Net position, beginning of year	<u>289,737,007</u>	<u>8,577,471</u>	<u>29,261</u>	<u>534,449</u>	<u>-</u>	<u>298,878,188</u>
Net position, end of year	<u>\$ 315,247,044</u>	<u>\$ 7,587,090</u>	<u>\$ 34,901</u>	<u>\$ 808,052</u>	<u>\$ -</u>	<u>\$ 323,677,087</u>

	2016					
	Hospital	CRHP	MCHN	CDI	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 39,958,691	\$ (19,157,532)	\$ 16,762	\$ 383,247	\$ -	\$ 21,201,168
Net cash used in noncapital financing activities	(1,685,268)	(12,877)	-	-	-	(1,698,145)
Net cash provided by (used in) capital and related financing activities	(25,153,437)	(1,513,667)	-	26,475	-	(26,640,629)
Net cash provided by (used in) investing activities	<u>(25,741,615)</u>	<u>23,007,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,734,406)</u>
Net increase (decrease) in cash	(12,621,629)	2,323,133	16,762	409,722	-	(9,872,012)
Cash and cash equivalents at beginning of year	<u>56,172,031</u>	<u>-</u>	<u>46,236</u>	<u>181,272</u>	<u>-</u>	<u>56,399,539</u>
Cash and cash equivalents at end of year	<u>\$ 43,550,402</u>	<u>\$ 2,323,133</u>	<u>\$ 62,998</u>	<u>\$ 590,994</u>	<u>\$ -</u>	<u>\$ 46,527,527</u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2017 and 2016**

Note 4: Net Patient Service Revenue

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

A summary of payment arrangements include:

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

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

Medicaid Disproportionate Share. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive certain supplemental Medicaid payments. The amounts of these supplemental Medicaid payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental Medicaid payments under this program have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately \$10.9 million and \$3.8 million of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2017 and 2016, respectively.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$10.2 million and \$8.1 million of fees related to the program in 2017 and 2016, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. There is no assurance this program will continue to be implemented in the future.

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Approximately 56% and 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The long-term care operations of the Hospital qualify for supplemental Medicaid payments through the Upper Payment Limit (UPL) program. The UPL is established to pay qualifying providers the difference between what Medicare would have paid and what Medicaid actually paid. The UPL is distributed through an intergovernmental transfer (IGT) arrangement. The Hospital is responsible for funding the IGT for the long-term care operations. Revenue associated with the UPL program is recorded net of IGT payments made to the program and are included in net patient service revenue. The Hospital recognized approximately \$16.2 million and \$16.5 million related to this supplemental payment program for the years ended December 31, 2017 and 2016, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue for 2017 decreased by approximately \$2.6 million due to the removal of previously estimated amounts. Net patient service revenue for 2016 increased by approximately \$1.1 million due to removal of previously estimated amounts.

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

	2017	2016
Gross patient charges		
Inpatients	\$ 346,175,009	\$ 328,437,105
Outpatients	482,677,085	428,542,359
	<u>828,852,094</u>	<u>756,979,464</u>
Charity care charges foregone	(6,728,004)	(8,367,462)
Provision for bad debt	(11,206,010)	(13,968,053)
Contractual allowances	<u>(404,625,568)</u>	<u>(343,520,648)</u>
Net patient service revenue	<u><u>\$ 406,292,512</u></u>	<u><u>\$ 391,123,301</u></u>

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Note 5: 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, 2017 and 2016, charges excluded from revenue under its charity policy were \$11.9 million and \$10.0 million, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$4.6 million for 2017 and \$4.1 million for 2016.

Note 6: 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, in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, paragraph 6.

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

Investments

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

At December 31, 2017 and 2016, the Hospital had the following investments, all of which mature within one year:

	2017	2016
Cash equivalents - money market funds	\$ 1,208,834	\$ 1,576,870
Investments		
Mutual funds	\$ 192,396,968	\$ 175,565,906
Interest receivable	195,163	241,961
	<u>\$ 192,592,131</u>	<u>\$ 175,807,867</u>

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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, 2017 and 2016, 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, 2017 and 2016 are held by the counterparties in other than the Hospital's name.

Concentration of Credit Risk - The Hospital establishes ranges by investment category to limit investment concentration. At December 31, 2017 and 2016, the Hospital's investment in mutual funds consisted of:

	2017	2016
Scout Core Plus Bond Fund Institutional	22%	23%
Metropolitan West T/R Bond fund	21%	21%
Vanguard Institutional Index fund	10%	9%
PIMCO fixed income funds	8%	12%
Touchstone Sands Capital	7%	5%
Other funds	32%	30%
	<u>100%</u>	<u>100%</u>

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Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits	\$ 46,576,000	\$ 46,527,527
Investments	192,592,131	175,807,867
	<u>\$ 239,168,131</u>	<u>\$ 222,335,394</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 45,367,166	\$ 44,950,657
Trustee-held-funds, current	-	377,608
Noncurrent assets limited as to use	193,800,965	177,007,129
	<u>\$ 239,168,131</u>	<u>\$ 222,335,394</u>

Investment Return

Investment return for the years ended December 31, 2017 and 2016 consisted of:

	2017	2016
Interest and dividend income	\$ 5,961,964	\$ 5,140,197
Net increase in fair value of investments	12,386,569	3,459,629
	<u>\$ 18,348,533</u>	<u>\$ 8,599,826</u>

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Note 7: 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, 2017 and 2016 was as follows:

	2017	2016
Medicare	37.4%	32.5%
Medicaid	16.9%	15.2%
Other third-party payers	37.2%	45.7%
Individual patients	8.5%	6.6%
	100.0%	100.0%

Note 8: Deferred Compensation Plan

Prior to 2016, CRHP maintained an IRS Code Section 457(B) plan for the benefit of certain highly compensated employees. The plan allowed for employee contributions only. The plan was dissolved on January 1, 2016, but the plan assets are still held by CRHP, separate from all other assets and reported within noncurrent cash and investments on the balance sheets. The 2016 presentation of the related liability of this deferred compensation plan was revised to report these values as long-term liabilities. The liability was previously reported as part of salaries, wages and related liabilities within current liabilities on the 2016 balance sheet.

The investments of the deferred compensation plan were as follows for the years ended December 31:

	2017	2016
Deferred compensation investments, beginning of year	\$ 3,967,329	\$ 3,692,468
Investment return	642,435	274,861
Deferred compensation investments, end of year	\$ 4,609,764	\$ 3,967,329

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Note 9: Investment in and Advances to Equity Investees

The Hospital participates as a joint owner in several companies. A listing of these companies, along with ownership percentages and net investment values as of December 31 are as follows:

Company Name - Description	2017 Ownership %	2017 Investment Amount	2016 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 552,862	\$ 619,091
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	157,670	181,921
United Hospital Services, LLC - Laundry Services	4.35%	262,722	262,722
inSpire Health Partners, LLC - Integrated Network	50.00%	-	(46,734)
Southern Indiana Health Organization, Inc.	16.43%	450,000	-
Tecumseh Health Reciprocal Risk Retention Group (formerly Indiana Healthcare)	7.14%	<u>335,311</u>	<u>335,311</u>
Total		<u>\$ 2,208,565</u>	<u>\$ 1,802,311</u>

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Note 10: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 2,669,554	\$ 48,000	\$ -	\$ -	\$ 2,717,554
Land improvements	21,540,246	26,780	(1,491,558)	-	20,075,468
Buildings and leasehold improvements	221,518,366	4,524,045	(9,134,826)	-	216,907,585
Equipment	143,496,267	21,043,346	(5,744,233)	-	158,795,380
Construction in progress	5,120,747	3,104,110		(4,067,612)	4,157,245
	<u>394,345,180</u>	<u>28,746,281</u>	<u>(16,370,617)</u>	<u>(4,067,612)</u>	<u>402,653,232</u>
Less accumulated depreciation					
Land improvements	11,865,705	583,713	(1,371,893)	-	11,077,525
Buildings and leasehold improvements	131,094,306	8,509,980	(6,871,368)	-	132,732,918
Equipment	110,759,306	11,236,715	(4,967,841)	-	117,028,180
	<u>253,719,317</u>	<u>20,330,408</u>	<u>(13,211,102)</u>	<u>-</u>	<u>260,838,623</u>
	<u>\$ 140,625,863</u>	<u>\$ 8,415,873</u>	<u>\$ (3,159,515)</u>	<u>\$ (4,067,612)</u>	<u>\$ 141,814,609</u>

	2016				
	Beginning Balance	Additions*	Disposals	Transfers	Ending Balance
Land	\$ 1,806,052	\$ 863,502	\$ -	\$ -	\$ 2,669,554
Land improvements	20,562,322	977,924	-	-	21,540,246
Buildings and leasehold improvements	195,473,321	26,199,359	(154,314)	-	221,518,366
Equipment	133,904,625	13,309,029	(3,717,387)	-	143,496,267
Construction in progress	15,629,943	4,800,375	-	(15,309,571)	5,120,747
	<u>367,376,263</u>	<u>46,150,189</u>	<u>(3,871,701)</u>	<u>(15,309,571)</u>	<u>394,345,180</u>
Less accumulated depreciation					
Land improvements	11,260,099	605,606	-	-	11,865,705
Buildings and leasehold improvements	121,214,707	10,020,144	(140,545)	-	131,094,306
Equipment	99,414,194	14,952,599	(3,607,487)	-	110,759,306
	<u>231,889,000</u>	<u>25,578,349</u>	<u>(3,748,032)</u>	<u>-</u>	<u>253,719,317</u>
	<u>\$ 135,487,263</u>	<u>\$ 20,571,840</u>	<u>\$ (123,669)</u>	<u>\$ (15,309,571)</u>	<u>\$ 140,625,863</u>

* Additions for 2016 include CRHP beginning balance amounts.

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Note 11: 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 would be uninsured. However, the Indiana Malpractice Act (the Act) limits professional liability for claims prior to July 1, 2017 to a maximum recovery of \$1,250,000 per occurrence, \$250,000 of which would be paid through medical insurance coverage, while the remaining balance would be paid by the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through insurance coverage, with the remainder due from the Fund. CRHP is provided insurance coverage through Innovative Physician Solutions, RRG, Inc. (IPS).

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 when additional subscribers joined and additional capital was required. As a result, the Hospital became a one-eighth (12.5%) subscriber. Effective February 1, 2004, the captive insurer provided insurance coverage to the Hospital for the required portion of the insurance coverage pursuant to the Act as well as its liability insurance. In prior years, insurance coverage was provided by ProAssurance and PHICO Insurance Company (PHICO).

On January 1, 2017, Indiana Healthcare, of which Columbus Regional Hospital's ownership share was 12.5%, and Heartland Reciprocal Risk Retention Group, both being reciprocal interinsurance exchanges organized and licensed pursuant to Chapters 132 and 141 of Title 8 of the Vermont Statutes Annotated, merged. Indiana Healthcare being the surviving insurer was renamed Tecumseh Reciprocal Risk Retention Group and Columbus Regional Hospital's ownership share is one-fourteenth, or approximately 7%.

Note 12: 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 2017 and 2016. 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 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 2,574,305	\$ 2,518,994
Current year claims incurred and changes in estimates for claims incurred in prior years	18,195,145	16,565,699
Claims and expenses paid	<u>(18,336,948)</u>	<u>(16,510,388)</u>
Balance, end of year	<u><u>\$ 2,432,502</u></u>	<u><u>\$ 2,574,305</u></u>

Note 13: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2017 and 2016:

	Beginning Balance	Additions	2017 Deductions	Ending Balance	Current Portion
Long-Term Debt and Capital Leases					
Indiana Health Facility Financing Authority					
Bonds Series 2014	\$ 67,735,000	\$ -	\$ (5,770,000)	\$ 61,965,000	\$ 6,090,000
Capital lease liability	<u>98,784</u>	<u>-</u>	<u>(93,457)</u>	<u>5,327</u>	<u>5,327</u>
Total long-term debt	<u><u>\$ 67,833,784</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (5,863,457)</u></u>	<u><u>\$ 61,970,327</u></u>	<u><u>\$ 6,095,327</u></u>

	Beginning Balance	Additions*	2016 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority					
Bonds Series 2014	\$ 73,200,000	\$ -	\$ (5,465,000)	\$ 67,735,000	\$ 5,770,000
Capital lease liability	<u>-</u>	<u>153,027</u>	<u>(54,243)</u>	<u>98,784</u>	<u>54,118</u>
Total long-term debt	<u><u>\$ 73,200,000</u></u>	<u><u>\$ 153,027</u></u>	<u><u>\$ (5,519,243)</u></u>	<u><u>\$ 67,833,784</u></u>	<u><u>\$ 5,824,118</u></u>

* Additions for 2016 include CRHP beginning balance amounts.

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Revenue Bonds Payable

In December 2014, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Hospital Revenue Bonds, Series 2014A and Series 2014B in the amount of \$74,205,000. The bonds were issued to refund the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B, and provide additional funding for a new capital project. Annual principal payments are due serially through August 1, 2044. Interest rates vary with London Interbank Offered Rate (LIBOR) and at December 31, 2017 was 1.76% for the Series 2014A and 1.63% for the Series 2014B.

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

The debt service requirements as of December 31, 2017, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2018	\$ 7,309,618	\$ 6,090,000	\$ 1,219,618
2019	7,522,125	6,425,000	1,097,125
2020	7,750,659	6,780,000	970,659
2021	8,016,302	7,185,000	831,302
2022	1,948,359	1,220,000	728,359
2023 - 2027	9,730,872	6,480,000	3,250,872
2028 - 2032	9,725,654	7,180,000	2,545,654
2033 - 2037	9,730,610	7,970,000	1,760,610
2038 - 2042	9,726,670	8,835,000	891,670
2043 - 2044	3,892,508	3,800,000	92,508
	<u>\$ 75,353,377</u>	<u>\$ 61,965,000</u>	<u>\$ 13,388,377</u>

Note 14: Line of Credit Agreement

The Hospital has an unsecured taxable line of credit providing up to \$10,000,000 of nonrevolving credit. This matured in January 2018 and was subsequently renewed for another year. As of December 31, 2017 and 2016, there were no borrowings against this line of credit.

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Note 15: Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreements

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

Terms

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

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2017
\$ 9,145,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (457,577)
10,275,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(425,713)
<u>\$ 19,420,000</u>						<u>\$ (883,290)</u>

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2016
\$ 10,820,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (737,686)
12,160,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(704,393)
<u>\$ 22,980,000</u>						<u>\$ (1,442,079)</u>

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

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Fair Value

The fair values of the agreements are based on estimated discounted future cash flows determined using the counterparty's proprietary models based upon financial principles and estimated relevant future market conditions. The fair values of the agreements are recognized in other liabilities in the Hospital's balance sheets. As the swaps are effective hedging instruments, the offsetting balance is reflected as deferred outflows of resources on the Hospital's balance sheets. The changes in fair value of the swap agreements of \$(558,789) and \$(555,418) for the years ended December 31, 2017 and 2016, respectively, are shown as an adjustment to the carrying amount of the related deferred outflows of resources on the balance sheets.

Interest Rate Risk

The Hospital entered into the interest rate swap agreements as a means of limiting its exposure to fair value losses occurring from rising variable interest rates associated with various bonds. Beginning in 2004, the notional amount of the swap agreements declines by a corresponding amount each time a principal payment becomes due on the associated debt until the notional amounts for each agreement reach \$0 at the termination of the swap agreements. At December 31, 2017, 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
\$ 3,595,000	\$ 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 by Moody's Investors Service as of December 31, 2017 and 2016. 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.

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Basis Risk

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

Termination Risk

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

The change in the Hospital's fair value of interest rate swap agreements during 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	\$ (1,442,079)	\$ (1,997,497)
Change in market value	<u>558,789</u>	<u>555,418</u>
Balance, end of year	<u><u>\$ (883,290)</u></u>	<u><u>\$ (1,442,079)</u></u>

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Swap Payments and Associated Debt

Using rates as of December 31, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

Years Ending December 31	2014 Bonds		Interest Rate Swap, Net	Total to be Paid
	Principal	Interest		
2018	\$ 6,090,000	\$ 1,219,618	\$ 322,162	\$ 7,631,780
2019	6,425,000	1,097,125	253,193	7,775,318
2020	6,780,000	970,659	182,005	7,932,664
2021	7,185,000	831,302	108,470	8,124,772
2022	1,220,000	728,359	17,460	1,965,819
2023 - 2027	6,480,000	3,250,872	-	9,730,872
2028 - 2032	7,180,000	2,545,654	-	9,725,654
2033 - 2037	7,970,000	1,760,610	-	9,730,610
2038 - 2042	8,835,000	891,670	-	9,726,670
2043 - 2044	3,800,000	92,508	-	3,892,508
	<u>\$ 61,965,000</u>	<u>\$ 13,388,377</u>	<u>\$ 883,290</u>	<u>\$ 76,236,667</u>

Note 16: Restricted and Designated Net Position

At December 31, 2017 and 2016, restricted net position was available for the following purposes:

	2017	2016
Debt service	\$ 1,208,834	\$ 1,576,870
Capital acquisitions	<u>1,948</u>	<u>1,948</u>
Total restricted net position	<u>\$ 1,210,782</u>	<u>\$ 1,578,818</u>

At December 31, 2017 and 2016, approximately \$189 million and \$173 million, respectively, of the Hospital's unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated portions 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.

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December 31, 2017 and 2016

Note 17: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2026. Total rental expense in 2017 and 2016 for all operating leases was approximately \$11,900,000 and \$12,900,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2017 that have initial or remaining lease terms in excess of one year:

2018	\$ 12,468,740
2019	11,022,533
2020	4,259,534
2021	3,676,074
2022	3,172,226
Thereafter	<u>1,235,010</u>
Future minimum lease payments	<u><u>\$ 35,834,117</u></u>

Note 18: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments by fair value level				
Mutual funds - equity	\$ 97,529,038	\$ 97,529,038	\$ -	\$ -
Mutual funds - fixed income	94,867,930	94,867,930	-	-
Money market mutual funds	1,208,834	1,208,834	-	-
	<u>\$ 193,605,802</u>	<u>\$ 193,605,802</u>	<u>\$ -</u>	<u>\$ -</u>
Investment derivative instruments				
Interest rate swap agreements	\$ 883,290	\$ -	\$ 883,290	\$ -
	<u>\$ 883,290</u>	<u>\$ -</u>	<u>\$ 883,290</u>	<u>\$ -</u>
December 31, 2016				
Investments by fair value level				
Mutual funds - equity	\$ 60,804,099	\$ 60,804,099	\$ -	\$ -
Mutual funds - fixed income	114,761,807	114,761,807	-	-
Money market mutual funds	1,576,870	1,576,870	-	-
	<u>\$ 177,142,776</u>	<u>\$ 177,142,776</u>	<u>\$ -</u>	<u>\$ -</u>
Investment derivative instruments				
Interest rate swap agreements	\$ 1,442,079	\$ -	\$ 1,442,079	\$ -
	<u>\$ 1,442,079</u>	<u>\$ -</u>	<u>\$ 1,442,079</u>	<u>\$ -</u>

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Notes to Financial Statements **December 31, 2017 and 2016**

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 and Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

For investments measured at net asset value (NAV) per share (or its equivalent), the Hospital does not have any unfunded commitments and redemption period is immediately.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 19: Retirement Plans

Defined-Contribution Retirement Plans

The Hospital maintains defined-contribution retirement plans for the benefit of substantially all of its employees. Under the plans, employee contributions are made into a 403(b) plan, while Hospital matching contributions are made into a 401(a) plan. Employee contributions are allowed up to the maximum allowable by law. The Hospital's matching of contributions ranges from a minimum of 2% to a maximum of 6%, dependent upon years of employment and level of salary deferral. For the years ended December 31, 2017 and 2016, the Hospital made \$3,497,295 and \$3,354,138 of contributions to the plans.

Defined-Benefit Pension Plan

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

In September 2013, the Hospital's Board of Trustees decided to terminate and liquidate the defined-benefit pension plan in 2014, depending on regulatory approval, among other factors. The board's decision to terminate the plan resulted in a remeasurement of the plan in 2013. The plan froze benefits and eligibility on December 16, 2012.

On April 1, 2016, the final payout of the pension benefits to related participants was made. As of December 31, 2016, the plan was terminated, fully funded and liquidated.

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A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 20: Commitments and Contingencies

Commitments

As of December 31, 2017, the Hospital had material commitments for the acquisition of capital assets totaling approximately \$37 million, primarily for a new electronic medical record (EMR) system for the Hospital. The contract signed December 2017, with EPIC System Corporation, will replace the existing EMR software currently being used by the Hospital. Implementation of the new EMR system is scheduled to begin in 2018 and continue into a scheduled go-live date in 2019.

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, 2017 and 2016

Note 21: 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	2017	2016
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	\$ 4,699,044	\$ 4,699,044
Rent expense	211,050	210,561
Concierge expense	80,017	-
Note receivable	14,105,497	6,567,996
Investment income	131,800	131,800
Contract services reimbursed	16,314,234	15,566,730
Employee benefit reimbursement received	171,187	159,731
Miscellaneous income	15,020	13,011
Other receivables	49,357	25,339
Accounts payable	1,577,489	851,437
Notes receivable (including interest) due from SIHM, which are secured by real estate, are made up of the following:		
Long-term note due July 1, 2020, interest of 4%	\$ 3,294,994	\$ 3,294,994
Long-term notes due March 1, 2026, interest of 0%	10,810,503	3,273,002
	\$ 14,105,497	\$ 6,567,996
Columbus Regional Health Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 696,855	\$ 783,599
Contributions received from the Foundation	446,356	246,732
Other receivables	151,537	229,133
Our Hospice of South Central Indiana, Inc.		
Hospital provides and purchases services		
Operating expenses	\$ 97,331	\$ 70,945
Miscellaneous sales to Hospice	200,668	87,570
Other receivables	148,655	73,559

In March 2018, the Hospital loaned \$11 million to Southeastern Indiana Health Management, Inc. (SIHM), a related party. Under the terms of the loan, no interest is charged, and no principal is due until maturity, in March 2026.

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Columbus Regional Hospital (Hospital), which comprise the balance sheet as of December 31, 2017 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
May 1, 2018