

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Auditor's Report and Financial Statements

December 31, 2016 and 2015

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2016 and 2015

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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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Regional Hospital as of December 31, 2016 and 2015, 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2017 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 5, 2017

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2016
(Unaudited)

Introduction

Columbus Regional Hospital (CRH or Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Ind., 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 American Hospital Association's Quest for Quality Prize, Top 100 Community Hospitals by Becker's Hospital Review, and US News & World Report's top hospitals in Indiana.

The Hospital also operates eight long-term care facilities in Indiana through various lease and management agreements. These facilities had 11,521 admits and 357,885 patient days in 2016. These facilities provide inpatient and therapy services throughout their respective geographic areas and support the Hospital's mission to provide quality care and services to the facilities' residents. In addition, the Hospital holds three wholly owned subsidiaries (Multi-County Health Network, Columbus Diagnostic Imaging, and Columbus Regional Health Physicians) and several joint ventures, which are generally accounted for under the equity method. This includes a joint venture called Inspire Health Partners, a clinically integrated network to further improve quality and access in the region. The following discussion and analysis represents the activity and achievements of the Hospital alone.

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

The Hospital 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 Columbus Regional Health has about 2,200 employees.

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

Year	Inpatients	Outpatients	Total
2016	8,961	244,884	253,845
2015	9,020	239,176	248,196
2014	8,806	229,747	238,553

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. In 2016, CRH continued to integrate into a multifaceted health system by transitioning the Physicians' Practice Organization, Inc. to a wholly owned subsidiary (effective 1/1/2016). The new entity named Columbus Regional Health Physicians, LLC (CRHP) transformed the physician employment relationship into a much more contemporary model, which will help improve physician retention and recruitment efforts, allow physicians to practice at the top of their license so that all efforts can be placed on excellence in patient care and quality and retaining patients within our system.

The Hospital also completed a two-year building and expansion project in Emergency Medicine and Cancer Care totaling about \$40 million. As part of this expansion project, the Hospital opened a new Emergency Department on the east end of the facility that doubles in size from the previous space and incorporates a new sub-department called Rapid Medical Assessment (RMA). RMA operates a separate but integrated patient through-put system that allows Emergency Department patients that present with lower acuity levels to be seen, treated and released in shorter amounts of time. Higher acuity level patients are assessed and treated in the traditional Emergency Department setting. In addition to the Cancer Center expansion in medical oncology services and volumes, the center installed and upgraded its linear accelerator machine used in radiation treatment for cancer to one of only three state-of-the-art machines of its kind in the state. CRH also welcomed three Top Doctors in the state to its cancer program in medical and radiation oncology.

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. Employee retention rates at CRH remain better than industry averages as do nursing retention rates. In 2016, CRH achieved its goal of ranking in the 75th percentile for employee engagement and satisfaction, as well as ranking in the 75th percentile for medical staff satisfaction.

- More than 350 employees were hired in 2016, compared to 288 in 2015.
- In 2016, the Hospital reinvigorated retention and recruitment efforts by devoting a more structured approach, including devoting more HR 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 revamped its focus on employee wellness through its Healthy Me program with incentives, health programs and ongoing education opportunities. The Healthy Me program initiated its first-ever Marathon training program with a record number of participants who completed one of the races in the Mill Race Marathon. HealthyMe 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 2016, and increased the number of fundraisers to benefit hospital programs and the healing environment initiative.

Service Excellence

CRH saw strong results in 2016 across all main clinical service areas that resulted in strong patient and family experience levels.

- The Hospital's Mental Health unit was ranked in the top 11 percent in the country.
- The Emergency Department ranked in the top 22 percent in the country.
- Outpatient Surgery at the Hospital ranked in the top 23 percent in the country.
- The Inpatient Rehabilitation team received Press Ganey's Guardian of Excellence Award for patient experience for the fourth straight year. The Press Ganey Guardian of Excellence Award is a nationally recognized symbol of achievement in health care. It honors top-performing facilities that consistently achieve the 95th percentile, or higher, for performance pertaining to the patient experience. That means this department ranks in the top 3 percent in the country.
- Outpatient rehabilitation and physical therapy services also achieved four quarters of Focus On Therapeutic Outcomes awards and recognition in 2016.
- Late 2016 also brought the creation of a new position devoted to coordinating the patients experience across the health system. The Director of Patient Experience is charged with coordinating the patient experience and patient satisfaction initiatives and practices across the Hospital and the ancillary services of Columbus Regional Health.

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 2016, the Hospital achieved at or better than a 7.6 readmission rate, which is on par with national averages:

- For the second year in a row, CRH had no reportable medical errors or pressure ulcers to the Indiana State Department of Health and no reportables so far in 2017.
- The Hospital also received Chest Pain Center Cycle 5 Accreditation from the Society of Cardiovascular Patient Care. The Cycle 5 Accreditation is the Society's highest designation level. In addition, the cardiac and pulmonary rehabilitation program received accreditation from the American Association of Cardiovascular and Pulmonary Rehabilitation.
- The Birthing Center at the Hospital was named as a Distinction Plus Center by Blue Cross Blue Shield.
- The Joint and Spine Center was also recognized as a Distinction Plus Center by Blue Cross Blue Shield.
- Columbus Diagnostic Imaging received its three year accreditation by the American College of Radiology.
- The CRHP's PromptMed also received national Urgent Care Center accreditation
- Teams from the Hospital's Clinical Quality Management and Clinical Nurse Specialist and Advanced Practice Nursing departments also received national and international recognition for efforts to boost awareness surrounding World Sepsis Day as well as the communication and education efforts surrounding sepsis by the Indiana Hospital and American Hospital Associations.

Growth & Innovation

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

- CRH completed two major building projects - the new Emergency Department and expanded and renovated Cancer Center, boosting both services lines volumes and expanding the geographic reach and services provided. The Emergency Department doubled in size from its previous space to 28 treatment rooms, up from 14, with dedicated rooms and care models related to patients with special psychiatric needs, sexual assault victims and victims of highly infectious diseases or hazardous material exposure. With the expansion and renovation, as well as the addition of two top radiation oncologists, the Cancer Center was able to begin offering expanded treatment options including HDR Brachytherapy, Stereotactic Radiosurgery of the Brain and Body and advanced radiotherapy techniques.
- CRH also welcomed a new generation of care practices and services offered for Medicaid and indigent populations by opening VIMCare, which replaced the former community initiative of Volunteers in Medicine. VIMCare opened in the former emergency department space. Through VIMCare, CRH remains committed to providing no or low-cost medical services to the county's indigent population as well as additional services including the Medication Assistance Program, Chronic Disease Management, Self-care Resources, Lifestyle Management and Behavioral Health.
- Physician recruitment continued to see solid improvement with 14 new physicians to the medical staff including key areas of oncology, emergency medicine, cardiology and cardiothoracic surgery, nephrology and primary care.
- CRH partnered with Flat Rock-Hawcreek School Corporation (FRHSC) as their exclusive provider of sports medicine and athletic training services. As part of the partnership, CRH provides an athletic trainer for FRHSC at Hauser Jr.-Sr. High School. CRH adds FRHSC to its sports medicine network. CRH is already the exclusive sports medicine partner for Bartholomew and Brown County Schools.
- The Hospital's laboratory introduced FastLab, a process that allows patients to schedule regular lab appointments via a quick digital check-in process, to avoid the line.
- The Hospital also launched its Pritikin Cardiac Rehabilitation program - one of the finest comprehensive cardiac rehabilitation programs in the nation.
- CRHP is scheduled in 2017 to convert its Electronic Medical Records (EMR) system to EPIC software - an initiative that provides all members of CRHP with one EMR, streamlining patient care communications among practices and boosting personal health information privacy for our patients.
- The Healthy Communities arm of the health system launched a new action team dedicated to mental health and substance abuse awareness, partnering with three arms of community service sector organizations - law enforcement, courts and prevention and treatment.

Financial Highlights

Columbus Regional Hospital's financial performance and activities for the year ended December 31, 2016 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

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

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

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between the assets, liabilities, deferred inflows and outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increase 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)					
	2016		2015		2014	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	\$ 397,253	100.0%	\$ 345,281	100.0%	\$ 347,217	100.0%
Salaries and benefits	142,955	36.0%	91,215	26.4%	91,524	26.4%
Supplies and drugs	51,189	12.9%	43,497	12.6%	42,011	12.1%
Purchased services and other operating expenses	164,210	41.3%	164,830	47.7%	165,471	47.7%
Depreciation and amortization	19,336	4.9%	16,977	4.9%	16,878	4.9%
Total expenses	<u>377,690</u>	95.1%	<u>316,519</u>	91.7%	<u>315,884</u>	91.0%
Income from operations	19,563	4.9%	28,762	8.3%	31,333	9.0%
Nonoperating income (expense), net	5,236	1.3%	(19,660)	-5.7%	(1,413)	-0.4%
Capital grants	-	0.0%	(5,697)	-1.6%	-	0.0%
Increase in net position	<u>\$ 24,799</u>	6.2%	<u>\$ 3,405</u>	1.0%	<u>\$ 29,920</u>	8.6%
Cash Flow Data						
Cash provided by operating activities	\$ 21,201		\$ 54,380		\$ 37,768	
Cash used in noncapital activities	(1,698)		(16,089)		(6,161)	
Cash provided by (used in) capital and related financing activities	(26,641)		(41,027)		10,713	
Cash provided by (used in) investing activities	(2,734)		(21,297)		(136)	
Financial Position						
Current assets	\$ 112,387		\$ 100,181		\$ 113,809	
Capital assets, net	140,626		135,487		121,942	
Other noncurrent assets and deferred outflows of resources	192,625		182,664		188,083	
Total assets and deferred outflows of resources	<u>\$ 445,638</u>		<u>\$ 418,332</u>		<u>\$ 423,834</u>	
Long-term debt, including current portion	\$ 67,834		\$ 73,200		\$ 78,299	
Other liabilities and deferred inflows of resources	54,126		54,832		58,639	
Total liabilities and deferred inflows of resources	<u>\$ 121,960</u>		<u>\$ 128,032</u>		<u>\$ 136,938</u>	
Unrestricted net position	\$ 249,306		\$ 204,870		\$ 180,891	
Net investment in capital assets	72,792		75,063		73,908	
Restricted net position	1,579		10,368		32,096	
Total net position	<u>\$ 323,677</u>		<u>\$ 290,301</u>		<u>\$ 286,895</u>	
Days cash on hand	219.8		246.5		229.4	
Hospital Operating Data						
Number of beds (available for use)	178		178		178	
Inpatient discharges	8,961		9,020		8,806	
Average daily census	92		95		91	
Average length of stay	3.7		3.8		3.8	
Occupancy	52%		53%		51%	
Inpatient case mix	1.4209		1.4204		1.4140	
Outpatient visits	244,884		239,176		229,747	

Results of Operations

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

The Hospital receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Gross patient revenues from the Medicare and Medicaid programs have been trending 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:

	2016	2015	2014
Medicare	47.8%	48.1%	47.1%
Medicaid	14.9%	13.0%	12.2%
Managed care plans	30.4%	31.0%	31.0%
Other	6.9%	7.9%	9.7%

Revenues for the year ended December 31, 2016 increased 15.1% to \$397.2 million from \$345.3 million in 2015. 2015 revenues were down, approximately 13.2%, when compared to 2014 revenues, which totaled \$347.2 million. The increased revenue of \$52.0 million for 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 2016 were up 2.4% and 4.1%, respectively, when compared to outpatient registrations for 2015 and 2014.

Total operating expenses increased 19.3% in 2016 to \$377.7 million from \$316.5 million in 2015 and up 0.2% when compared to operating expenses in 2014, which totaled \$315.9 million. The greatest driver of increased operating expenses for 2016 is the integration of the wholly owned subsidiary, CRHP, which added operating expenses of \$60.4 million. In 2016, salaries and benefits and supplies increased 56.7% and increased 17.7%, respectively. Purchased services and depreciation were down 0.1% and up 13.9%, respectively. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process standardization and improvement tools.

Income from operations for 2016 and 2015 totaled \$19.6 million and \$28.8 million, which was decreased from \$31.3 million for 2014. Net nonoperating income for 2016 totaled \$5.2 million, which included investment gains, interest expense and contributions to related organizations. Net nonoperating income consisted of investment gains, interest expense and contributions to related organizations and totaled \$(19.7) million and \$(1.4) million for 2015 and 2014, respectively. Increase in net position for 2016 totaled \$24.8 million compared to increases in net position that totaled \$3.4 million for 2015 and \$29.9 million in 2014.

Financial Position

Cash provided by operating activities in 2016 totaled \$21.2 million. This compares to cash provided by operating activities of \$54.4 million in 2015 and \$37.8 million in 2014. The decrease in the amount of cash provided from operating activities compared to 2015 and 2014 resulted from the integration of the wholly owned subsidiary CRHP with greater cash payments to suppliers and employees. Capital expenditures totaled \$19.7 million for 2016 and included the new Emergency Department of the Hospital. As of December 31, 2016, the Hospital's construction in progress totaled \$5.1 million. Capital expenditures for 2015 totaled \$30.7 million with construction in progress of \$15.7 million at the end of the year. Capital expenditures for 2014 totaled \$18.1 million and construction in progress at the end of the year totaled \$8.6 million.

Current assets increased to \$112.4 million for 2016 compared to \$100.2 million in 2015 and \$113.8 million in 2014. The \$12.2 million increase for 2016 was largely due to the integration of the wholly owned subsidiary CRHP current assets totaling \$8.9 million. Other noncurrent cash and investments increased to \$177.0 million for 2016 compared to \$169.9 million for 2015 and \$171.0 million for 2014. The increase 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)	2016	2015	2014
Internally designated funds	\$ 177.0	\$ 169.9	\$ 171.0
Other assets	<u>13.5</u>	<u>9.9</u>	<u>9.5</u>
Total noncurrent assets (excluding capital assets)	<u>\$ 190.5</u>	<u>\$ 179.8</u>	<u>\$ 180.5</u>

The Hospital had \$67.8 million in long-term debt at December 31, 2016 compared to \$73.2 million for 2015 and \$78.3 million for 2014. In 2014, the Hospital issued 2014A and 2014B bonds for \$74.2 million, refunding the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B.

Economic Outlook

The healthcare industry continues to be challenged with how the new era under the Affordable Care Act, and any repeal-and-replace action to be taken by the current administration, will impact the overall healthcare delivery model for hospitals, physicians and other healthcare providers. The traditional model of fee-for-service continues for hospitals and physicians; however, the Hospital and CRHP continue to work toward further incorporating patient-centered care 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 is home to more engineers per capita than any other community in the United States, due to the global headquarters office of Cummins, Inc. This contributes to Columbus having the 25th highest per capita income among the 381 metropolitan areas measured by the US Bureau of Economic Analysis. Columbus also boasts an extremely low unemployment rate of 3.3 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. 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, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 44,950,657	\$ 43,623,758
Patient accounts receivable, less allowance for uncollectible accounts (\$6,715,788 in 2016 and \$5,286,996 in 2015)	46,321,679	37,019,543
Grants receivable	585,082	585,082
Other receivables	10,986,159	8,458,822
Inventories	4,022,534	3,474,556
Prepaid expenses	5,142,857	4,599,742
Trustee-held funds, current	377,608	2,419,580
Total current assets	112,386,576	100,181,083
Noncurrent Cash and Investments		
Internally designated	171,840,538	159,551,473
Deferred compensation investments	3,967,329	-
Trustee-held funds, less current	1,199,262	10,356,201
Total noncurrent cash and investments	177,007,129	169,907,674
Capital Assets		
Plant and equipment	390,695,681	349,911,418
Less accumulated depreciation	253,719,317	231,889,000
	136,976,364	118,022,418
Land	2,669,554	1,806,052
Construction in progress	979,945	15,658,793
Capital assets, net	140,625,863	135,487,263
Other Assets		
Notes receivable, related party	6,567,996	3,456,061
Joint venture investments and other notes receivable	5,927,789	5,475,528
Goodwill	940,768	940,768
Total assets	443,456,121	415,448,377
Deferred Outflows of Resources		
Losses on debt refunding	739,020	886,824
Interest rate swap agreements	1,442,079	1,997,497
Total deferred outflows of resources	2,181,099	2,884,321
Total assets and deferred outflows of resources	\$ 445,637,220	\$ 418,332,698

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 22,674,270	\$ 21,944,507
Salaries, wages and related liabilities	16,565,514	8,654,524
Accrued interest payable	115,149	72,218
Estimated third-party payer settlements	2,477,178	3,196,548
Other accrued liabilities	10,852,159	18,587,600
Current portion of long-term debt	<u>5,824,118</u>	<u>5,465,000</u>
Total current liabilities	58,508,388	57,920,397
Fair Value of Interest Rate Swap Agreements	1,442,079	1,997,497
Long-Term Obligations	62,009,666	67,735,000
Accrued Pension Cost	-	232,194
Total liabilities	<u>121,960,133</u>	<u>127,885,088</u>
Deferred Inflows of Resources - Pension experience gain	-	146,893
Total liabilities and deferred inflows of resources	<u>121,960,133</u>	<u>128,031,981</u>
Net Position		
Unrestricted	249,306,190	202,450,531
Net investment in capital assets	72,792,079	75,063,044
Restricted	<u>1,578,818</u>	<u>12,787,142</u>
Total net position	<u>323,677,087</u>	<u>290,300,717</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 445,637,220</u>	<u>\$ 418,332,698</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$13,968,053 in 2016 and \$11,565,884 in 2015	\$ 391,123,301	\$ 342,634,812
Other operating revenue	6,129,978	2,646,614
Total operating revenue	397,253,279	345,281,426
Operating Expenses		
Salaries and wages	113,114,405	70,323,267
Employee benefits	29,841,120	20,892,009
Fees	16,019,034	18,721,520
Supplies	51,188,951	43,496,598
Purchased services	129,171,116	129,346,510
Depreciation and amortization	19,335,659	16,977,150
Insurance	5,158,640	3,767,166
Hospital assessment fee	8,141,726	7,613,136
Other	5,719,308	5,381,974
Total operating expenses	377,689,959	316,519,330
Operating Income	19,563,320	28,762,096
Nonoperating Income (Expenses)		
Investment return	8,599,826	(2,085,151)
Interest expense	(1,580,974)	(1,327,695)
Contributions to related organizations	(783,599)	(15,268,105)
Other nonoperating expense	(999,674)	(979,360)
Total nonoperating income (expense)	5,235,579	(19,660,311)
Excess of Revenues Over Expenses	24,798,899	9,101,785
Deobligation of Capital Grant Funds	-	(5,696,505)
Increase in Net Position	24,798,899	3,405,280
Net Position, Beginning of Year , as previously reported	290,300,717	286,895,437
Increase in Net Position - Merger (Note 2)	8,577,471	-
Net Position, Beginning of Year , as adjusted	298,878,188	286,895,437
Net Position, End of Year	\$ 323,677,087	\$ 290,300,717

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Cash received from patients and third-party payers	\$ 385,072,571	\$ 339,920,309
Cash payments to employees for services	(151,612,076)	(88,542,243)
Cash payments to suppliers for goods and services	(216,986,740)	(207,172,688)
Other cash received	4,727,413	10,174,958
Net cash provided by operating activities	21,201,168	54,380,336
Noncapital Financing Activities		
Contributions to related parties	(783,599)	(15,268,105)
Other nonoperating	(914,546)	(820,615)
Net cash used in noncapital financing activities	(1,698,145)	(16,088,720)
Capital and Related Financing Activities		
Principal paid on long-term debt	(5,519,243)	(5,070,000)
Interest paid on long-term debt	(1,433,170)	(1,356,368)
Acquisition and construction of capital assets	(19,688,216)	(30,680,811)
Deobligated capital grants	-	(3,919,846)
Net cash used in capital and related financing activities	(26,640,629)	(41,027,025)
Investing Activities		
Investment income	5,140,197	6,786,288
Purchase of investments in assets limited as to use	(23,239,436)	(55,075,713)
Disbursements for notes receivable	(3,660,023)	(1,258,391)
Collections of notes receivable	570,353	845,546
CRHP merger	4,044,503	-
Sale of investments in assets limited as to use	14,410,000	27,405,768
Net cash used in investing activities	(2,734,406)	(21,296,502)
Net Decrease in Cash and Cash Equivalents	(9,872,012)	(24,031,911)
Cash and Cash Equivalents at Beginning of Year	56,399,539	80,431,450
Cash and Cash Equivalents at End of Year	\$ 46,527,527	\$ 56,399,539

Columbus Regional Hospital
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Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 44,950,657	\$ 43,623,758
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	1,576,870	12,775,781
Total cash and cash equivalents	<u>\$ 46,527,527</u>	<u>\$ 56,399,539</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 19,563,320	\$ 28,762,096
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	19,335,659	16,977,150
Provision for uncollectible accounts	13,968,053	11,565,884
Change in assets and liabilities		
Patient accounts receivable and third-party settlements	(20,018,783)	(14,280,387)
Other assets	(1,819,224)	7,233,592
Net pension liability	(146,893)	4,504,697
Current liabilities	(9,680,964)	(382,696)
Net cash provided by operating activities	<u>\$ 21,201,168</u>	<u>\$ 54,380,336</u>
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	\$ 1,776,885	\$ 3,778,524

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements
December 31, 2016 and 2015

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; and Columbus Area Radiology, LLC (dba Columbus Diagnostic Imaging). The primary government appoints a voting majority of these entities' board of directors and a financial benefit/burden relationship exists between the Hospital and these entities. Although legally separate from the board, these entities are reported as if it were a part of the Hospital, because it provides 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, 2016 and 2015**

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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with banks.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. The Hospital insures itself from general liability and medical malpractice liability through participation in a reciprocal risk retention group. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements **December 31, 2016 and 2015**

Deferred Inflows and Outflows of Resources

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

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

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

Inventories

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

Goodwill

Goodwill has a carrying value at December 31, 2016 and 2015 of \$940,768. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. There were no write-downs in the carrying amounts of goodwill during 2016 or 2015.

Pensions

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

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Notes to Financial Statements
December 31, 2016 and 2015

Capital Assets

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

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

Compensated Absences

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

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

Net Position

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

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.

Columbus Regional Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

Interest Rate Swap Agreements

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

Income Taxes

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

Grants and Contributions

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

Electronic Health Records Incentive Program

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

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Notes to Financial Statements **December 31, 2016 and 2015**

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

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.

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 home. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is a non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheets and statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

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.

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Notes to Financial Statements
December 31, 2016 and 2015

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:

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

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

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2016 and 2015

Note 3: Blended Component Units

The financial statements include 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 component units as of December 31, 2016 and 2015.

	CRHP	MCHN		CDI	
	2016	2016	2015	2016	2015
Total current assets	\$ 8,931,418	\$ 62,998	\$ 46,236	\$ 884,471	\$ 413,965
Total noncurrent assets	7,351,554	-	-	142,105	232,482
Total assets	\$ 16,282,972	\$ 62,998	\$ 46,236	\$ 1,026,576	\$ 646,447
Total liabilities	\$ 8,695,882	\$ 28,097	\$ 16,975	\$ 218,524	\$ 111,998
Net position	7,587,090	34,901	29,261	808,052	534,449
Total liabilities and net position	\$ 16,282,972	\$ 62,998	\$ 46,236	\$ 1,026,576	\$ 646,447
Revenue	\$ 40,575,778	\$ -	\$ -	\$ 1,972,880	\$ 1,520,219
Operating expenses	(60,378,060)	(170,118)	(167,498)	(2,427,781)	(2,159,000)
Nonoperating revenue (expenses)	(150,805)	-	-	-	70,000
Transfer from Hospital	18,962,706	175,758	180,000	728,504	766,173
Change in net position	(990,381)	5,640	12,502	273,603	197,392
Net position, beginning of year	8,577,471	29,261	16,759	534,449	337,057
Net position, end of year	\$ 7,587,090	\$ 34,901	\$ 29,261	\$ 808,052	\$ 534,449
	CRHP	MCHN		CDI	
	2016	2016	2015	2016	2015
Total operating activities	\$ (19,157,532)	\$ 16,762	\$ 12,273	\$ 383,247	\$ (22,899)
Total noncapital financing activities	(12,877)	-	-	-	-
Total capital and related financing activities	(1,513,667)	-	-	26,475	125,605
Total investing activities	23,007,209	-	-	-	-
Net increase in cash	2,323,133	16,762	12,273	409,722	102,706
Cash and cash equivalents at beginning of year	-	46,236	33,963	181,272	78,566
Cash and cash equivalents at end of year	\$ 2,323,133	\$ 62,998	\$ 46,236	\$ 590,994	\$ 181,272

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2016 and 2015

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 \$3.8 million and \$5.5 million of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2016 and 2015, respectively.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$8.1 million and \$7.6 million of fees related to the program in 2016 and 2015, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. The program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

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Notes to Financial Statements December 31, 2016 and 2015

Approximately 55% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, 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 \$16.5 million and \$14.5 million related to this supplemental payment program for the years ended December 31, 2016 and 2015, respectively.

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

The 2016 and 2015 net patient service revenue increased approximately \$1,103,000 and \$1,407,000 due to removal of previously estimated amounts, respectively.

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

	2016	2015
Gross patient charges		
Inpatients	\$ 328,437,105	\$ 329,287,922
Outpatients	428,542,359	324,272,267
	756,979,464	653,560,189
Charity care charges foregone	(8,367,462)	(11,682,643)
Provision for bad debt	(13,968,053)	(11,565,884)
Contractual allowances	(343,520,648)	(287,676,850)
Net patient service revenue	\$ 391,123,301	\$ 342,634,812

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2016 and 2015

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, 2016 and 2015, charges excluded from revenue under its charity policy were \$10,030,145 and \$14,319,771, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$4,104,335 for 2016 and \$5,750,820 for 2015.

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.

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

Investments

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

At December 31, 2016 and 2015, the Hospital had the following investments, all of which mature within one year:

	2016	2015
Cash equivalents - money market funds	\$ 1,576,870	\$ 12,775,781
Investments		
Mutual funds	\$ 175,565,906	\$ 159,340,990
Interest receivable	241,961	210,483
	\$ 175,807,867	\$ 159,551,473

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015 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, 2016 and 2015, the Hospital's investment in mutual funds consisted of:

	2016	2015
PIMCO fixed income funds	12%	10%
Scout Core Plus Bond Fund Institutional	23%	24%
Harbor Equity funds	6%	2%
Mainstay ICAP Select Equity fund	0%	9%
Metropolitan West T/R Bond fund	21%	23%
Vanguard Institutional Index fund	9%	8%
Other funds	29%	26%
	100%	102%

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements
December 31, 2016 and 2015

Summary of Carrying Values

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

	2016	2015
Carrying value		
Deposits	\$ 46,527,527	\$ 56,399,539
Investments	175,807,867	159,551,473
	\$ 222,335,394	\$ 215,951,012
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 44,950,657	\$ 43,623,758
Trustee-held-funds, current	377,608	2,419,580
Noncurrent assets limited as to use	177,007,129	169,907,674
	\$ 222,335,394	\$ 215,951,012

Investment Return

Investment return for the years ended December 31, 2016 and 2015 consisted of:

	2016	2015
Interest and dividend income	\$ 5,140,197	\$ 6,786,288
Net increase (decrease) in fair value of investments	3,459,629	(8,871,439)
	\$ 8,599,826	\$ (2,085,151)

Columbus Regional Hospital
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Notes to Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015 was as follows:

	2016	2015
Medicare	32.5%	33.5%
Medicaid	15.2%	14.7%
Other third-party payers	45.7%	44.2%
Individual patients	6.6%	7.6%
	100.0%	100.0%

Note 8: Investment in and Advances to Equity Investees

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

Company Name - Description	Ownership %	2016 Investment Amount	2015 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 619,091	\$ 628,185
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	181,921
United Hospital Services, LLC - Laundry Services	4.35%	262,722	262,722
inSpire Health Partners, LLC - Integrated Network	50.00%	(46,734)	61,587
Indiana Healthcare Reciprocal Risk Retention Group	12.50%	335,311	335,311
Total		\$ 1,802,311	\$ 1,919,726

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Note 9: Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015 was:

	Beginning Balance	Additions*	2016		Ending Balance
			Disposals	Transfers	
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>
	Beginning Balance	Additions	2015		Ending Balance
			Disposals	Transfers	
Land	\$ 1,786,052	\$ 20,000	\$ -	\$ -	\$ 1,806,052
Land improvements	17,440,817	3,121,505	-	-	20,562,322
Buildings and leasehold improvements	185,082,504	10,445,233	(54,416)	-	195,473,321
Equipment	128,114,371	10,060,526	(4,270,272)	-	133,904,625
Construction in progress	8,596,396	19,804,835	-	(12,771,288)	15,629,943
	<u>341,020,140</u>	<u>43,452,099</u>	<u>(4,324,688)</u>	<u>(12,771,288)</u>	<u>367,376,263</u>
Less accumulated depreciation					
Land improvements	10,688,464	571,635	-	-	11,260,099
Buildings and leasehold improvements	113,757,208	7,489,185	(31,686)	-	121,214,707
Equipment	94,632,121	8,916,330	(4,134,257)	-	99,414,194
	<u>219,077,793</u>	<u>16,977,150</u>	<u>(4,165,943)</u>	<u>-</u>	<u>231,889,000</u>
	<u>\$ 121,942,347</u>	<u>\$ 26,474,949</u>	<u>\$ (158,745)</u>	<u>\$ (12,771,288)</u>	<u>\$ 135,487,263</u>

* Additions for 2016 include CRHP beginning balance amounts.

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Note 10: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the Indiana Malpractice Act (the Act) limits professional liability for claims prior to July 1, 1999 to a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate), \$100,000 of which would be paid through malpractice insurance coverage, and the balance would be paid by the State of Indiana patient Compensation Fund (the Fund). For claims on or after July 1, 1999, the maximum recovery is \$1,250,000 per occurrence (\$7,500,000 annual aggregate), \$250,000 of which would be paid through insurance coverage and the remainder by the Fund. 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 one-eighth a 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, the Indiana Healthcare Reciprocal Risk Retention Group (IHRRG), of which Columbus Regional Hospital's ownership share was one-eighth, or 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. IHRRG being the surviving insurer was renamed Tecumseh Reciprocal Risk Retention Group and Columbus Regional Hospital's ownership share is one-fourteenth, or 7%.

Note 11: 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 2016 and 2015. 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 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ 2,518,994	\$ 1,631,527
Current year claims incurred and changes in estimates for claims incurred in prior years	16,565,699	11,853,710
Claims and expenses paid	(16,510,388)	(10,966,243)
Balance, end of year	\$ 2,574,305	\$ 2,518,994

Note 12: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2016 and 2015:

	2016				
	Beginning Balance	Additions*	Deductions	Ending Balance	Current Portion
Long-Term Debt and Capital Leases					
Indiana Health Facility Financing Authority					
Bonds Series 2014	\$ 73,200,000	\$ -	\$ (5,465,000)	\$ 67,735,000	\$ 5,770,000
Capital lease liability	-	153,027	(54,243)	98,784	54,118
	\$ 73,200,000	\$ 153,027	\$ (5,519,243)	\$ 67,833,784	\$ 5,824,118
Total long-term debt	\$ 73,200,000	\$ 153,027	\$ (5,519,243)	\$ 67,833,784	\$ 5,824,118
2015					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority					
Bonds Series 2014	\$ 74,205,000	\$ -	\$ (1,005,000)	\$ 73,200,000	\$ 5,465,000
Indiana Health Facility Financing Authority					
Bonds - Series 1993	4,065,000	-	(4,065,000)	-	-
	78,270,000	-	(5,070,000)	73,200,000	5,465,000
Plus: Unamortized bond premium	28,673	-	(28,673)	-	-
Total long-term debt	\$ 78,298,673	\$ -	\$ (5,098,673)	\$ 73,200,000	\$ 5,465,000

* Additions for 2016 include CRHP beginning balance amounts.

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Revenue Bonds Payable

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 1993, payable August 2015 are subject to mandatory redemption through the operation of a sinking fund, which commenced August 15, 2009. The remaining principal payable was paid in full during fiscal year 2015, leaving no further obligation.

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, 2016 was 1.24% for the Series 2014A and 1.11% 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, 2016, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2017	\$ 7,105,691	\$ 5,770,000	\$ 1,335,691
2018	7,309,618	6,090,000	1,219,618
2019	7,522,125	6,425,000	1,097,125
2020	7,750,659	6,780,000	970,659
2021	8,016,302	7,185,000	831,302
2022 - 2026	9,733,628	6,350,000	3,383,628
2027 - 2031	9,726,481	7,035,000	2,691,481
2032 - 2036	9,730,079	7,805,000	1,925,079
2037 - 2041	9,727,636	8,655,000	1,072,636
2042 - 2044	5,836,849	5,640,000	196,849
	<u>\$ 82,459,068</u>	<u>\$ 67,735,000</u>	<u>\$ 14,724,068</u>

Note 13: 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 2017 and was subsequently reviewed for another year. As of December 31, 2016 and 2015, there were no borrowings against this line of credit.

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Notes to Financial Statements December 31, 2016 and 2015

Note 14: 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, 2016
\$ 10,820,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (737,686)
<u>12,160,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	<u>(704,393)</u>
<u>\$ 22,980,000</u>						<u>\$ (1,442,079)</u>

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2015
\$ 11,155,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (1,016,627)
<u>12,540,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	<u>(980,870)</u>
<u>\$ 23,695,000</u>						<u>\$ (1,997,497)</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 \$(555,418) and \$(353,407) for the years ended December 31, 2016 and 2015, 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, 2016, 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
\$ 3,560,000	\$ 19,420,000	\$ -	\$ -

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, 2016 and 2015. The Hospital does not currently have a policy of requiring the counterparty post collateral in the event the Hospital becomes exposed to credit risk. The Hospital does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

Basis Risk

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

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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 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ (1,997,497)	\$ (2,350,904)
Change in market value	555,418	353,407
Balance, end of year	\$ (1,442,079)	\$ (1,997,497)

Swap Payments and Associated Debt

Using rates as of December 31, 2016, 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		
2017	\$ 5,770,000	\$ 1,335,691	\$ 431,911	\$ 7,537,602
2018	6,090,000	1,219,618	357,938	7,667,556
2019	6,425,000	1,097,125	281,310	7,803,435
2020	6,780,000	970,659	202,216	7,952,875
2021	7,185,000	831,302	120,515	8,136,817
2022 - 2026	6,350,000	3,383,628	-	9,733,628
2027 - 2031	7,035,000	2,691,481	-	9,726,481
2032 - 2036	7,805,000	1,925,079	-	9,730,079
2037 - 2041	8,655,000	1,072,636	-	9,727,636
2042 - 2044	5,640,000	196,849	-	5,836,849
	\$ 67,735,000	\$ 14,724,068	\$ 1,393,890	\$ 83,852,958

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Note 15: Restricted and Designated Net Position

At December 31, 2016 and 2015, restricted net position was available for the following purposes:

	2016	2015
Debt service	\$ 1,576,870	\$ 12,775,781
Capital acquisitions	1,948	11,361
Total restricted net position	\$ 1,578,818	\$ 12,787,142

At December 31, 2016 and 2015, approximately \$173 million and \$170 million, respectively, of the Hospital's unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated portion of net position remain under the control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

Note 16: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2026. Total rental expense in 2016 and 2015 for all operating leases was approximately \$12,900,000 and \$10,600,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2016 that have initial or remaining lease terms in excess of one year:

2017	\$ 10,754,392
2018	3,902,450
2019	1,715,757
2020	1,630,072
2021	1,398,768
Thereafter	2,201,213
Future minimum lease payments	\$ 21,602,652

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Note 17: 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

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, 2016 and 2015:

	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, 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 swaps	\$ 1,442,079	\$ -	\$ 1,442,079	\$ -

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	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, 2015				
Investments by fair value level				
Mutual funds - equity	\$ 60,301,383	\$ 60,301,383	\$ -	\$ -
Mutual funds - fixed income	99,039,607	99,039,607	-	-
Money market mutual funds	12,775,781	12,775,781	-	-
	<u>\$ 172,116,771</u>	<u>\$ 172,116,771</u>	<u>\$ -</u>	<u>\$ -</u>
Investment derivative instruments				
Interest rate swaps	\$ 1,997,497	\$ -	\$ 1,997,497	\$ -
	<u>\$ 1,997,497</u>	<u>\$ -</u>	<u>\$ 1,997,497</u>	<u>\$ -</u>

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.

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Note 18: Retirement Plans

General Information about the Pension Plan

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

In September 2013, the Hospital's Board of Trustees decided to terminate and liquidate the defined-benefit pension plan 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.

Benefits Provided

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

Employees Covered by Benefit Terms

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

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

	<u>2015</u>
Active	1,224
Terminated-vested	321
Retired and beneficiary	<u>120</u>
Total	<u><u>1,665</u></u>

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Contributions

The Hospital was required to contribute at an actuarially determined rate. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2016 and 2015 were \$232,194 and \$4,210,000, respectively.

Net Pension Liability

The Hospital's net pension liability was measured as of January 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. An actuarial valuation was not completed for 2016 as the plan was fully funded and terminated during the year.

Actuarial Assumptions

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

Investment return	0.5%
Mortality tables	2014 IRS Static Mortality Tables

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

Discount Rate

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

Changes in the Net Pension Liability

	2016	2015
Beginning balance	\$ 232,194	\$ 5,649,126
Contributions	(232,194)	(4,210,000)
Net investment return	-	(731,374)
Fees, expenses and other	-	706,128
Actuarial change	-	(1,181,686)
Ending balance	<u>\$ -</u>	<u>\$ 232,194</u>

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

For the year ended December 31, 2015, the Hospital recognized pension expense of \$(1,060,039).

Any remaining expense associated with closing out the plan was recognized in 2016, which is the year in which the Hospital terminated the plan and all remaining benefits were paid.

Note 19: Commitments and Contingencies

Commitments

As of December 31, 2016, the Hospital had material commitments for acquisition of capital assets totaling approximately \$1.7 million, primarily for lab automation equipment and analyzers.

Subsequent to year end, the Hospital Board of Trustees approved a \$9.6 million capital investment in a new electronic medical record (EMR) system for CRHP. The contract signed January 2017, with EPIC System Corporation will replace the existing EMR software currently being used by CRHP physician practices. Implementation of the new EMR system is underway with a fall 2017 scheduled go-live.

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, 2016 and 2015

Note 20: 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	2016	2015
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	\$ 4,699,044	\$ 4,699,044
Rent expense	210,561	206,226
Director expense	-	297,790
Insurance expense	-	618,943
Note receivable	6,567,994	3,456,061
Contributions to related organizations	-	17,184,556
Investment income	131,800	137,470
Contract services reimbursed	15,566,730	13,533,539
Employee benefit reimbursement received	159,731	122,002
Miscellaneous income	13,011	759,035
Other receivables	25,339	238,442
Accounts payable	851,437	1,804,324
Prepaid insurance	-	318,143
Notes receivable (including interest) due from SIHM are made up of the following:		
Note due on demand, interest paid at prime plus 1%	\$ -	\$ 161,068
Long-term note due July 1, 2020, interest of 4%	3,294,994	3,294,994
Long-term note due March 1, 2026, interest of 0%	3,273,000	-
	<u>\$ 6,567,994</u>	<u>\$ 3,456,062</u>
Columbus Regional Health Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 883,000	\$ 410,500
Contributions received from the Foundation	246,732	81,999
Other receivables	229,133	22,623
Our Hospice of South Central Indiana, Inc.		
Hospital provides and purchases services		
Operating expenses	70,945	54,241
Miscellaneous sales to Hospice	87,570	107,052
Other receivables	73,559	69,097

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2016 and 2015

Included within SIHM's 2015 financial statements is PPO, Inc., which ceased operations within PPO effective January 1, 2016 and reinstated operations within CRHP. During 2015, PPO renegotiated physician contracts and changed the physician compensation arrangements resulting in a purchase of certain operating assets, including accounts receivable.

The Hospital contributed \$793,193 and \$15,268,105 to related parties during 2016 and 2015, respectively. These contributions for 2015 were made to SIHM related entities in support of operating losses and the physician compensation arrangements, incurred by PPO, among other entities. These contributions for 2016 were primarily made to the Columbus Regional Health Foundation and SIHM related entities.

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

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Columbus Regional Hospital (Hospital), which comprise the balance sheet as of December 31, 2016 and the related statements of activities, revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 5, 2017.

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
May 5, 2017