

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Auditor's Report and Financial Statements

December 31, 2018 and 2017

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbus Regional Hospital, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 25, 2019, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
April 25, 2019

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2018
(Unaudited)

Introduction

Columbus Regional Hospital (CRH or Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a 10-county region in southeastern Indiana. CRH's commitment to serving the community is demonstrated through not only providing top-quality health and wellness services, but operating as an economic development catalyst and community partner on numerous projects and initiatives aimed to improve the health and well-being of the people we serve.

The Hospital also operates eight long-term care facilities in Indiana through various lease and management agreements. These facilities had 2,443 admissions and 318,205 patient days in 2018. These facilities provide inpatient and therapy services through their respective geographic areas, and support CRH's mission to provide quality care and services to the facilities' residents. In addition, the Hospital holds two wholly owned subsidiaries - Columbus Diagnostic Imaging (CDI), an outpatient imaging center, and Columbus Regional Health Physicians (CRHP), an employed physicians group. In 2018, the wholly owned subsidiaries had 15,881 imaging procedures and 256,989 patient visits/cases, respectively. CRH has several joint ventures and partnerships, which are generally accounted for under the equity method if the ownership is greater than 20%, and under the cost method if ownership is less than 20%. During 2018, CRH partnered with the City of Columbus to form the Fair Oaks Community Development Corporation to engage in a project to transform a waning retail mall into a community parks, recreation and health campus. CRH owns 25% of that non-profit partnership.

CRH has one of the highest home county market shares in the state, and the Hospital's 10-county market share is the largest of any hospital serving the region that is situated between Indianapolis, Louisville and Cincinnati. CRH is a county-owned hospital licensed for 325 beds.

CRH provides emergency and surgical services and comprehensive care in numerous specialty areas. The Hospital has approximately 1,900 employees, 225 physicians on medical staff, and more than 200 volunteers. The entire health system that makes up CRH has more than 2,300 employees.

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

| Year | Inpatients | Outpatients | Total |
|-------------|-------------------|--------------------|--------------|
| 2018 | 9,507 | 252,735 | 262,242 |
| 2017 | 9,221 | 254,268 | 263,489 |
| 2016 | 8,961 | 244,884 | 253,845 |

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. 2018 was a year of significant accomplishments, growth, and continued system transformation, with highlights including key service line growth and clinical services expansion, patient/customer experience enhancement efforts, physician recruitment, nursing services alignment, and further system integration between CRH and CRHP with the opening of a new practice model and location and various practice mergers.

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; 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. Below are some highlights.

- The Hospital began to redefine its employee wellness program with the launch of Virgin Pulse as a comprehensive, interactive health and well-being platform. Enrollment sits at just over 70 percent of eligible employees. As part of the launch, health risk and biometric assessments were completed on 65% of eligible employees.
- CRH launched a new digital platform - CAREconnect - for social workforce recognition, which is a direct component of the workforce and physician engagement initiative on the scorecard.
- 19 new providers were added to the medical staff.
- 525 new hires were added to the non-provider workforce.
- Nursing leadership was restructured and bedside nurse roles were re-classified into Professional Nurse II (PN II) and Professional Nurse I (PN I), bringing classification and compensation more in line with national standards and best practices. Nursing leadership also launched its office of professional development to assist nurses in proactively reaching their professional career goals, alignment, and engagement with the organization.
- Outside nursing services, the health system launched its Career for Life campaign to recognize exemplary employees and showcase their passion for the job. This career promotion campaign coordinated with a revamping of the careers portion of the CRH website to make it easier for potential workforce to search and apply for jobs.
- Volunteers donated more than 22,350 hours of service across many CRH departments. Those hours were donated by 214 volunteers, including auxiliary members, pet therapy, spiritual support and student volunteers. A total of 65 new volunteers donated their time to CRH in 2018.

Service Excellence

- The transition to a unified medical record across the physician practice locations strengthened care coordination and communication in 2018. Access to patient charts and information allows for timely and consistent sharing of information between providers, as well as between providers and patients, ultimately resulting in better care and experience for our patients. 2018 was CRHP's first full year following Epic implementation and patient utilization of the associated MyChart application nearly doubled to 34%.
- CRH launched its new service model - The Way We Care, with 96% of existing employees attending a session. In addition, all new hires receive this training during the employee onboarding process. The Way We Care model is designed to create an environment of service, civility and hospitality.
- Radiation oncology services expanded in the communities of Seymour, Madison, New Albany, and the greater Columbus area, including the addition of two new providers, radiation oncologists Dr. Parag Sevak, M.D., and Dr. Mark Henderson, M.D.
- The Cancer Center added a second True Beam linear accelerator and opened the High Dose Radiation (HDR) Brachytherapy suite.
- The low-dose Lung Screening program saw continued growth with 584 patients screened compared to 539 patients in 2017. Twelve cancers, that might otherwise have gone undetected, were found through these screenings.
- Cardiovascular Services introduced a new, simple online tool - the Heart Health Profiler - to calculate the heart's "age," based on risk-assessment questions. Users receive email messages and reports, which are customized based on their answers and results and offer calls-to-action with connection to CRH Cardiovascular services and information.
- The Heart Scan program completed its first full year with a total of 1,322 scans, compared to 974 scans in partial year 2017.
- New echocardiogram equipment and software was installed and launched. This installation also provides an improved image reading and storage platform for echocardiogram studies and is being utilized in both the Hospital and CRHP cardiology practice. This system allows remote reading capability for the physician from any location, greatly improving study turnaround time and physician efficiency and productivity.
- Surgical specialty services opened the Hybrid Operating Room. The suite is equipped with a fixed C-Arm that enables vascular surgeons to simultaneously perform open and endovascular procedures (surgical procedures in which a catheter is inserted through the skin into a blood vessel for the treatment of vascular disease), along with minimally-invasive endovascular procedures with the latest, industry-standard imaging equipment. It also provides a foundation on which to expand our current Cardiothoracic Surgery program to include minimally invasive trans-catheter aortic valve replacement (TAVR) procedures.
- Two new nuclear medicine imaging cameras were installed adjacent to the Cardiac Catheterization Labs. This investment fuses CT images over the top of a nuclear medicine study, which allows the Radiologists to accurately identify the anatomical location of disease processes. These new cameras will provide improved image quality, reduce scan times, and allow for increased exam volumes.
- The Siemens Vario 3T Magnetic Resonance Imaging (MRI) installation was completed at the outpatient imaging center, CDI. This investment dramatically improved the image quality and service at this outpatient location. CRH has the only 3T magnet between Louisville and the south side of Indianapolis along the I-65 corridor.

- Medical staff continued to expand to meet the needs of patients and providers and welcomed three new radiologists - Dr. Suzanne Hand, M.D., who specializes in breast imaging and biopsies and primarily works at the Breast Health Center; Dr. Sunah Kim, M.D., and Dr. Tony Findley, M.D.
- Chief Financial Officer Marlene Weatherwax was recognized as a CFO of the Year honoree by the Indianapolis Business Journal.
- Radiation Oncologist Kevin McMullen, M.D., was named a Top Doc by research and information company Castle Connolly Medical, Ltd.

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 award and accreditation accomplishments. In 2018, the Hospital achieved at or better than an 8.27 readmission rate. Additional awards and recognition include:

- The Columbus Regional Hospital Continuing Medical Education program earned re-accreditation with commendation through December 2024.
- Columbus Regional Hospital received a Platinum Performance Achievement Award from the NCDR Action Registry for consistency in meeting patient care guidelines for Acute Myocardial Infarction patients.
- The Pharmacy Residency Program earned a six-year accreditation.
- Columbus Regional Hospital was granted a three-year accreditation from HFAP based on the site visit, which occurred in 2017.
- Ambulance Services began upgrading its ambulance fleet to 4-wheel drive trucks with liquid hydraulic suspension and electronic coaching system to monitor driving patterns.
- Nursing Resource Manager Lisa Combs, RN, BSN, CMSRN, was named the 2018 IU School of Nursing IUPUC Preceptor of the Year for Bartholomew County.
- CRH received a distinction award from the eHealthcare Leadership Awards program for our lung screening and heart scan marketing campaigns.

Growth

CRH strives to not only continue to meet but exceed and elevate the level of health and wellness programs and services available in the region. CRH values the importance of responsible growth and innovation practices required to meet those goals, and 2018 was no exception. Some examples of innovation and growth at CRH include:

- MyCare Family Med - a new primary care practice, opened on the community's west side. The goal with this new practice model and location was to improve access and meet customer demand for ease of scheduling and convenience. MyCare has expanded office hours from 7 a.m. to 7 p.m., Monday through Friday, and from 8 a.m. to noon on Saturday, with appointments available within 24 hours.
- Family and Internal Medicine opened as a new practice located at 3015 10th Street in Columbus, on October 1, 2018. This new location is the result of our efforts to consolidate practices (Columbus Adult Medicine and Kavelman Family Medicine) for greater efficiency, combined expertise, and improved patient access through a physician and advanced practice provider (APP) model.

- A Provider Ratings and Reviews system was launched on the CRH website: crh.org. This system utilizes data and compiles a provider profile for patients to view. Providers receive a star rating based on their survey data that patients can use to find out about a provider’s bedside manner, wait times, the friendliness of office staff, etc. Ratings and reviews are published in our online “Find a Doctor” guide to help patients make the best decision possible for their healthcare needs.
- ASAP (Alliance for Substance Abuse Progress) continued to be the top priority in our community partnership development, which marked significant progress toward implementing more than 40 projects across the areas of Prevention, Intervention, Treatment, Recovery, and Sober Housing.
- CRH system makes a variety of investments in the community. In total, CRH invested more than \$1.3 million in Bartholomew County in 2018 and participated in more than 100 community events and education programs.

Financial Highlights

Columbus Regional Hospital’s financial performance and activities for the year ended December 31, 2018 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

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

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

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

The Statement of Cash Flows

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

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

| | Selected Financial Data and Statistics (Dollars in Thousands) | | | | | |
|--|---|--------|-------------------|--------|-------------------|--------|
| | 2018 | | 2017 | | 2016 | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Summary of Operations | | | | | | |
| Revenues | \$ 439,484 | 100.0% | \$ 412,093 | 100.0% | \$ 397,253 | 100.0% |
| Salaries and benefits | 160,836 | 36.6% | 153,573 | 37.3% | 142,955 | 36.0% |
| Supplies and drugs | 61,034 | 13.9% | 54,819 | 13.3% | 51,189 | 12.9% |
| Purchased services and other operating expenses | 199,070 | 45.3% | 180,940 | 43.9% | 164,210 | 41.3% |
| Depreciation and amortization | 22,522 | 5.1% | 20,330 | 4.9% | 19,336 | 4.9% |
| Total expenses | <u>443,462</u> | 100.9% | <u>409,662</u> | 99.4% | <u>377,690</u> | 95.1% |
| (Loss) income from operations | (3,978) | -0.9% | 2,431 | 0.6% | 19,563 | 4.9% |
| Nonoperating (expense) income, net | <u>(8,201)</u> | -1.9% | <u>14,495</u> | 3.5% | <u>5,236</u> | 1.3% |
| (Decrease) increase in net position | <u>\$ (12,179)</u> | -2.8% | <u>\$ 16,926</u> | 4.1% | <u>\$ 24,799</u> | 6.2% |
| Cash Flow Data | | | | | | |
| Cash provided by operating activities | \$ 20,749 | | \$ 37,694 | | \$ 21,201 | |
| Cash used in noncapital activities | (1,901) | | (1,477) | | (1,698) | |
| Cash used in capital and related financing activities | (47,533) | | (31,299) | | (26,641) | |
| Cash provided by (used in) investing activities | 17,113 | | (4,870) | | (2,734) | |
| Financial Position | | | | | | |
| Current assets | \$ 106,014 | | \$ 111,010 | | \$ 112,387 | |
| Capital assets, net | 157,510 | | 141,815 | | 140,626 | |
| Other noncurrent assets and deferred outflows of resources | <u>191,674</u> | | <u>216,525</u> | | <u>192,625</u> | |
| Total assets and deferred outflows of resources | <u>\$ 455,198</u> | | <u>\$ 469,350</u> | | <u>\$ 445,638</u> | |
| Long-term debt, including current portion | \$ 55,875 | | \$ 61,970 | | \$ 67,834 | |
| Other liabilities and deferred inflows of resources | <u>70,898</u> | | <u>66,778</u> | | <u>54,126</u> | |
| Total liabilities and deferred inflows of resources | <u>\$ 126,773</u> | | <u>\$ 128,748</u> | | <u>\$ 121,960</u> | |
| Unrestricted net position | \$ 226,790 | | \$ 259,548 | | \$ 249,306 | |
| Net investment in capital assets | 101,635 | | 79,844 | | 72,792 | |
| Restricted net position | <u>-</u> | | <u>1,211</u> | | <u>1,579</u> | |
| Total net position | <u>\$ 328,425</u> | | <u>\$ 340,603</u> | | <u>\$ 323,677</u> | |
| Days cash on hand | 165.9 | | 217.8 | | 219.8 | |
| Hospital Operating Data | | | | | | |
| Number of beds (available for use) | 235 | | 232 | | 205 | |
| Inpatient discharges | 9,507 | | 9,221 | | 8,961 | |
| Average daily census | 97 | | 95 | | 92 | |
| Average length of stay | 3.7 | | 3.8 | | 3.7 | |
| Occupancy | 41% | | 40% | | 43% | |
| Inpatient case mix | 1.4839 | | 1.4658 | | 1.4209 | |
| Outpatient visits | 252,735 | | 254,268 | | 244,884 | |

Results of Operations

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

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

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

| | 2018 | 2017 | 2016 |
|--------------------|-------------|-------------|-------------|
| Medicare | 49.3% | 49.4% | 47.8% |
| Medicaid | 15.4% | 15.3% | 14.9% |
| Managed care plans | 28.9% | 28.9% | 30.4% |
| Other | 6.4% | 6.4% | 6.9% |

Revenues for the year ended December 31, 2018 increased 6.6% to \$439.5 million from \$412.1 million in 2017. 2017 revenues were up, approximately 3.7%, when compared to 2016 revenues, which totaled \$397.3 million. Inpatient discharges over the past three years have been steadily trending upward, with 3% increases seen in both 2018 and 2017. Outpatient volumes were stagnant in 2018, after seeing a 3.8% rise in registrations in 2017.

Total operating expenses in 2018 are \$443.5 million, up 8.3% from \$409.7 million in 2017 and up 17.4% from \$377.7 million in 2016. Operating expense increases are across-the-board for CRH, as in 2018, salaries and benefits rose by 4.7%, supplies and drugs rose by 11.3%, purchased services increased by 10.0%, and depreciation was up 10.8%. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process standardization and improvement tools.

For 2018, a net operating loss of \$4.0 million was incurred, while 2017 and 2016 saw net operating incomes of \$2.4 million and \$19.6 million, respectively. CRH also experienced a non-operating loss of \$8.2M in 2018, after recording non-operating income of \$14.5 million in 2017. CRH's non-operating activity includes investment gains, interest expense, and contributions to related organizations.

For 2018, net position decreased by \$12.2 million, compared to increases in net position that totaled \$16.9 million for 2017 and \$24.8 million for 2016.

Financial Position

Cash provided by operating activities in 2018 totaled \$20.8 million. This compares to cash provided by operating activities of \$37.7 million in 2017 and \$21.2 million in 2016. Capital expenditures totaled \$39.7 million for 2018, including a new electronic medical record system for the Hospital, as well as other significant medical equipment. Capital expenditures for 2017 and 2016 totaled \$23.9 million and \$19.7 million, respectively. Construction in progress at year-end for 2018, 2017 and 2016 was \$19.1 million, \$4.2 million and \$5.1 million, respectively. For additional information regarding significant capital asset activity, refer to Note 9 in the notes to the financial statements.

Current assets totaled \$106.0 million for 2018, compared to \$111.0 million in 2017 and \$112.4 million in 2016. Other noncurrent assets, including noncurrent cash and investments, decreased to \$190.8 million for 2018, compared to \$215.1 million for 2017 and \$190.5 million for 2016. The decrease can be attributed to the decline 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) | 2018 | 2017 | 2016 |
|--|-----------------|-----------------|-----------------|
| Internally designated funds | \$ 161.5 | \$ 193.8 | \$ 177.0 |
| Other assets | <u>29.3</u> | <u>21.3</u> | <u>13.5</u> |
| Total noncurrent assets (excluding capital assets) | <u>\$ 190.8</u> | <u>\$ 215.1</u> | <u>\$ 190.5</u> |

The Hospital had \$55.9 million in long-term debt at December 31, 2018 compared to \$62.0 million for 2017 and \$67.8 million for 2016. For additional information regarding significant long-term debt activity, refer to Note 12 in the notes to the financial statements.

Economic Outlook

The healthcare industry continues to be challenged with how the new era of healthcare reform will impact the overall care delivery model for hospitals, physicians and other healthcare providers. Uncertainty with the fate of programs such as the Affordable Care Act requires healthcare organizations to remain vigilant and flexible. The Hospital and CRHP continue to work toward operating in the most efficient manner possible to help mitigate rising costs. These two entities also collaborate to further incorporate patient-centered care and pay-for-performance practices that entail provider-recognition models for exemplary patient service and satisfaction.

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

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

Contacting the Hospital's Financial Management

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

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Balance Sheets
December 31, 2018 and 2017

Assets and Deferred Outflows of Resources

| | 2018 | 2017 |
|---|----------------|----------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 35,003,440 | \$ 45,367,166 |
| Patient accounts receivable, less allowance for uncollectible accounts (\$8,400,000 in 2018 and \$9,000,000 in 2017) | 46,655,177 | 46,730,401 |
| Other receivables | 9,158,405 | 8,124,908 |
| Inventories | 5,413,403 | 5,037,719 |
| Prepaid expenses | 6,510,663 | 5,750,172 |
| Notes receivable, related party - current portion | 3,273,000 | - |
| Total current assets | 106,014,088 | 111,010,366 |
| Noncurrent Cash and Investments | | |
| Internally designated | 157,494,670 | 187,982,367 |
| Deferred compensation investments | 3,998,191 | 4,609,764 |
| Trustee-held funds, less current | - | 1,208,834 |
| Total noncurrent cash and investments | 161,492,861 | 193,800,965 |
| Capital Assets, Net | 157,510,001 | 141,814,609 |
| Other Assets | | |
| Notes receivable, related party | 20,453,891 | 14,105,497 |
| Joint venture investments, notes receivable, and other | 8,801,260 | 7,144,730 |
| Total other assets | 29,255,151 | 21,250,227 |
| Total assets | 454,272,101 | 467,876,167 |
| Deferred Outflows of Resources | 925,586 | 1,474,506 |
| Total assets and deferred outflows of resources | \$ 455,197,687 | \$ 469,350,673 |

Liabilities and Net Position

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Current Liabilities | | |
| Accounts payable | \$ 20,536,419 | \$ 24,691,267 |
| Salaries, wages and related liabilities | 15,982,003 | 13,950,944 |
| Estimated third-party payer settlements | 1,101,842 | 1,766,190 |
| Deferred Medicaid revenue | 4,290,665 | - |
| Other accrued liabilities | 24,507,343 | 20,876,035 |
| Current portion of long-term debt | <u>6,425,000</u> | <u>6,095,327</u> |
| Total current liabilities | 72,843,272 | 67,379,763 |
| Deferred Compensation Liability | 3,998,191 | 4,609,764 |
| Fair Value of Interest Rate Swap Agreements | 481,369 | 883,290 |
| Long-Term Obligations | <u>49,450,000</u> | <u>55,875,000</u> |
| Total liabilities | <u>126,772,832</u> | <u>128,747,817</u> |
| Net Position | | |
| Unrestricted | 226,789,854 | 259,547,792 |
| Net investment in capital assets | 101,635,001 | 79,844,282 |
| Restricted | <u>-</u> | <u>1,210,782</u> |
| Total net position | <u>328,424,855</u> | <u>340,602,856</u> |
| | | |
| Total liabilities and net position | <u>\$ 455,197,687</u> | <u>\$ 469,350,673</u> |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Operating Revenue | | |
| Net patient service revenue, net of provision for uncollectible accounts of \$12,607,306 in 2018 and \$11,206,010 in 2017 | \$ 433,345,773 | \$ 406,292,512 |
| Other operating revenue | 6,138,251 | 5,800,445 |
| Total operating revenue | 439,484,024 | 412,092,957 |
| Operating Expenses | | |
| Salaries and wages | 128,144,333 | 121,550,335 |
| Employee benefits | 32,691,670 | 32,022,546 |
| Fees | 18,740,132 | 16,735,715 |
| Supplies | 61,034,097 | 54,819,002 |
| Purchased services | 156,929,070 | 142,762,296 |
| Depreciation and amortization | 22,522,049 | 20,330,408 |
| Insurance | 4,924,929 | 5,084,943 |
| Hospital assessment fee | 12,201,088 | 10,216,717 |
| Other | 6,274,146 | 6,139,827 |
| Total operating expenses | 443,461,514 | 409,661,789 |
| Operating (Loss) Income | (3,977,490) | 2,431,168 |
| Nonoperating (Expenses) Income | | |
| Investment return | (3,618,833) | 18,348,533 |
| Interest expense | (2,501,072) | (1,712,638) |
| Contributions to related organizations | (670,920) | (696,855) |
| Other nonoperating expense | (1,409,686) | (1,444,439) |
| Total nonoperating (loss) income | (8,200,511) | 14,494,601 |
| (Decrease) Increase in Net Position | (12,178,001) | 16,925,769 |
| Net Position, Beginning of Year | 340,602,856 | 323,677,087 |
| Net Position, End of Year | \$ 328,424,855 | \$ 340,602,856 |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Operating Activities | | |
| Cash received from patients and third-party payers | \$ 437,047,314 | \$ 405,172,802 |
| Cash payments to employees for services | (156,697,920) | (143,048,542) |
| Cash payments to suppliers for goods and services | (264,705,496) | (233,676,707) |
| Other cash received | 5,104,754 | 9,246,778 |
| Net cash provided by operating activities | 20,748,652 | 37,694,331 |
| Noncapital Financing Activities | | |
| Contributions to related parties | (670,920) | (696,855) |
| Other nonoperating | (1,230,497) | (780,053) |
| Net cash used in noncapital financing activities | (1,901,417) | (1,476,908) |
| Capital and Related Financing Activities | | |
| Principal paid on long-term debt | (6,095,327) | (5,863,457) |
| Interest paid on long-term debt | (2,352,113) | (1,564,834) |
| Acquisition and construction of capital assets | (39,620,058) | (23,870,836) |
| Proceeds from sale of capital assets | 534,439 | - |
| Net cash used in capital and related financing activities | (47,533,059) | (31,299,127) |
| Investing Activities | | |
| Interest and dividend income | 15,251,446 | 5,961,964 |
| Purchases of investments in assets limited as to use | (37,132,582) | (28,695,515) |
| Disbursements for notes receivable | (11,644,603) | (7,805,740) |
| Collections of notes receivable | 1,889,003 | 729,213 |
| Sales of investments in assets limited as to use | 48,750,000 | 24,940,255 |
| Net cash provided by (used in) investing activities | 17,113,264 | (4,869,823) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (11,572,560) | 48,473 |
| Cash and Cash Equivalents at Beginning of Year | 46,576,000 | 46,527,527 |
| Cash and Cash Equivalents at End of Year | <u>\$ 35,003,440</u> | <u>\$ 46,576,000</u> |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | |
| Cash and cash equivalents in current assets | \$ 35,003,440 | \$ 45,367,166 |
| Cash and cash equivalents in assets limited as to use and noncurrent cash | | |
| Held by trustee under bond indenture | - | 1,208,834 |
| Total cash and cash equivalents | \$ 35,003,440 | \$ 46,576,000 |
| Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities | | |
| Operating (loss) income | \$ (3,977,490) | \$ 2,431,168 |
| Adjustments to reconcile loss/income from operations to net cash provided by operating activities | | |
| Depreciation and amortization | 22,522,049 | 20,330,408 |
| Provision for uncollectible accounts | 12,607,306 | 11,206,010 |
| Change in assets and liabilities | | |
| Patient accounts receivable and third-party settlements | (8,905,765) | (12,325,720) |
| Other assets | (3,693,956) | 1,086,686 |
| Current liabilities | 2,196,508 | 14,965,779 |
| Net cash provided by operating activities | \$ 20,748,652 | \$ 37,694,331 |
| Additional Cash Flows Information | | |
| Property and equipment acquired through accounts payable | \$ 48,086 | \$ 2,584,718 |
| Disposals of long-term care property and equipment through a reduction of management fees payable | 737,075 | 2,495,129 |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2018 and 2017

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.

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

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income, interest on capital assets-related debt, and contributions to related organizations are included in nonoperating revenues and expenses.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, cash equivalents consisted primarily of money market accounts with banks.

Risk Management

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

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

Investments and Investment Income

For joint venture activities in which the Hospital's ownership percentage is 20% or more, the investment is recorded in accordance with the equity method of accounting. For joint ventures in which the Hospital's ownership percentage is less than 20%, the cost method is used. All other investments are carried at fair value. Fair value is determined using quoted market prices.

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

Patient Accounts Receivable

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

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2018 and 2017

Inventories

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

Deferred Compensation Investments

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

Capital Assets

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

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

Deferred Outflows of Resources

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

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

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

| | 2018 | 2017 |
|---|-------------|--------------|
| Deferred losses on debt refundings | \$ 443,412 | \$ 591,216 |
| Fair value of interest rate swap agreements | 483,329 | 883,290 |
| Total deferred outflows of resources | \$ 926,741 | \$ 1,474,506 |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2018 and 2017

Compensated Absences

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

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

Interest Rate Swap Agreements

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

Net Position

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

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

Net Patient Service Revenue

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

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2018 and 2017

Charity Care

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

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital and CRHP are exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and CRHP are subject to federal income tax on any unrelated business taxable income. CDI, which is a limited liability company, is not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

Grants and Contributions

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

Long-Term Care Nursing Facilities

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

Between September 2017 and March 2018, the third-party manager of six of the Hospital's nursing homes changed, and in conjunction with this, new lease and management agreements were established.

Columbus Regional Hospital

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Notes to Financial Statements December 31, 2018 and 2017

Note 2: Blended Component Units

The financial statements include the Hospital, as well as the blended component unit accounts of Columbus Regional Health Physicians, LLC (CRHP) and Columbus Diagnostic Imaging (CDI), as discussed in Note 1. Multi-County Health Network LLC (MCHN), formerly a blended component unit, ceased operations in 2016.

The following is a financial summary of the Hospital and the component units as of December 31, 2018:

| | 2018 | | | | | |
|---|-----------------------|----------------------|-------------|---------------------|---------------------|-----------------------|
| | Hospital | CRHP | MCHN | CDI | Eliminations | Total |
| Total current assets | \$ 97,394,777 | \$ 8,546,591 | \$ - | \$ 587,896 | \$ (515,176) | \$ 106,014,088 |
| Total noncurrent assets | 339,158,302 | 8,611,488 | - | 1,427,400 | (13,591) | 349,183,599 |
| Total assets | \$ 436,553,079 | \$ 17,158,079 | \$ - | \$ 2,015,296 | \$ (528,767) | \$ 455,197,687 |
| Total liabilities | \$ 115,603,702 | \$ 11,479,493 | \$ - | \$ 218,404 | \$ (528,767) | \$ 126,772,832 |
| Net position | 320,949,377 | 5,678,586 | - | 1,796,892 | - | 328,424,855 |
| Total liabilities and net position | \$ 436,553,079 | \$ 17,158,079 | \$ - | \$ 2,015,296 | \$ (528,767) | \$ 455,197,687 |
| Operating revenue | \$ 404,699,739 | \$ 37,359,639 | \$ - | \$ 2,019,104 | \$ (4,594,458) | \$ 439,484,024 |
| Operating expenses | (369,979,556) | (75,600,115) | - | (2,476,301) | 4,594,458 | (443,461,514) |
| Nonoperating expenses | (8,042,279) | (142,068) | - | (16,164) | - | (8,200,511) |
| Equity transfer | (36,464,273) | 34,757,016 | - | 1,707,257 | - | - |
| Change in net position | (9,786,369) | (3,625,528) | - | 1,233,896 | - | (12,178,001) |
| Net position, beginning of year | 330,735,746 | 9,304,114 | - | 562,996 | - | 340,602,856 |
| Net position, end of year | \$ 320,949,377 | \$ 5,678,586 | \$ - | \$ 1,796,892 | \$ - | \$ 328,424,855 |

| | 2018 | | | | | |
|---|----------------------|---------------------|-------------|-------------------|--------------|----------------------|
| | Hospital | CRHP | MCHN | CDI | Eliminations | Total |
| Net cash provided by (used in) operating activities | \$ 52,844,003 | \$ (33,486,937) | \$ - | \$ 1,391,586 | \$ - | \$ 20,748,652 |
| Net cash used in noncapital financing activities | (1,761,265) | (140,152) | - | - | - | (1,901,417) |
| Net cash used in capital and related financing activities | (44,802,552) | (1,189,667) | - | (1,540,840) | - | (47,533,059) |
| Net cash provided by (used in) investing activities | (17,643,752) | 34,757,016 | - | - | - | 17,113,264 |
| Net decrease in cash and cash equivalents | (11,363,566) | (59,740) | - | (149,254) | - | (11,572,560) |
| Cash and cash equivalents at beginning of year | 44,653,994 | 1,549,766 | - | 372,240 | - | 46,576,000 |
| Cash and cash equivalents at end of year | \$ 33,290,428 | \$ 1,490,026 | \$ - | \$ 222,986 | \$ - | \$ 35,003,440 |

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2018 and 2017

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

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

| | 2017 | | | | | |
|--|----------------------|---------------------|-------------|-------------------|--------------|----------------------|
| | Hospital | CRHP | MCHN | CDI | Eliminations | Total |
| Net cash provided by (used in) | | | | | | |
| operating activities | \$ 72,088,850 | \$ (34,160,987) | \$ (62,998) | \$ (170,534) | \$ - | \$ 37,694,331 |
| Net cash used in noncapital | | | | | | |
| financing activities | (1,298,169) | (178,739) | - | - | - | (1,476,908) |
| Net cash used in capital and related | | | | | | |
| financing activities | (29,723,938) | (1,526,969) | - | (48,220) | - | (31,299,127) |
| Net cash provided by (used in) | | | | | | |
| investing activities | (35,353,387) | 30,483,564 | - | - | - | (4,869,823) |
| Net increase (decrease) in cash | | | | | | |
| and cash equivalents | 5,713,356 | (5,383,131) | (62,998) | (218,754) | - | 48,473 |
| Cash and cash equivalents at beginning | | | | | | |
| of year | 38,940,638 | 6,932,897 | 62,998 | 590,994 | - | 46,527,527 |
| Cash and cash equivalents at end of year | \$ 44,653,994 | \$ 1,549,766 | \$ - | \$ 372,240 | \$ - | \$ 46,576,000 |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2018 and 2017

Note 3: Net Patient Service Revenue

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

A summary of payment arrangements include:

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

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 \$7.2 million and \$10.9 million of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, approximately \$4.3 million of these supplemental Medicaid payments are deferred until 2019.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$12.2 million and \$10.2 million of fees related to the program in 2018 and 2017, respectively, which is recorded as an operating expense. The provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital. There is no assurance this program will continue to be implemented in the future.

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Notes to Financial Statements December 31, 2018 and 2017

Approximately 53% and 56% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, 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 \$18.5 million and \$16.2 million related to this supplemental payment program for the years ended December 31, 2018 and 2017, respectively.

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

Net patient revenue for 2018 increased by approximately \$4.6 million due to removal of previously estimated amounts. Net patient service revenue for 2017 decreased by approximately \$2.6 million due to the removal of previously estimated amounts.

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

| | 2018 | 2017 |
|-------------------------------|----------------|----------------|
| Gross patient charges | | |
| Inpatients | \$ 277,271,208 | \$ 237,835,996 |
| Long-term care | 115,350,543 | 108,339,013 |
| Outpatients | 493,775,801 | 482,677,085 |
| Total | 886,397,552 | 828,852,094 |
| Charity care charges foregone | (13,454,463) | (6,728,004) |
| Provision for bad debt | (12,472,501) | (11,206,010) |
| Contractual allowances | (427,124,815) | (404,625,568) |
| Net patient service revenue | \$ 433,345,773 | \$ 406,292,512 |

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides, as well as the amount of charges foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2018 and 2017, charges excluded from revenue under its charity policy were \$17.1 million and \$12.3 million, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$8.5 million for 2018 and \$6.0 million for 2017.

Note 5: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law, in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, paragraph 6.

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

Investments

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

At December 31, 2018 and 2017, the Hospital had the following investments, all of which mature within one year:

| | 2018 | 2017 |
|---------------------------------------|----------------|----------------|
| Cash equivalents - money market funds | \$ - | \$ 1,208,834 |
| Investments | | |
| Mutual funds | \$ 161,356,034 | \$ 192,396,968 |
| Interest receivable | 136,827 | 195,163 |
| | \$ 161,492,861 | \$ 192,592,131 |

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Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy states an expected duration of investments between two and five years. The money market account and mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in money market funds with a rating of AAA or above by Standard & Poor's or Aaa or above by Moody's, with a maximum maturity of one year. At December 31, 2018 and 2017, the Hospital's investments in mutual funds were not rated by Standard & Poor's or Moody's. 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, 2018 and 2017 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, 2018 and 2017, the Hospital's investment in mutual funds consisted of:

| | 2018 | 2017 |
|---|-------------|-------------|
| Scout Core Plus Bond Fund Institutional | 24% | 22% |
| Metropolitan West T/R Bond fund | 24% | 21% |
| Vanguard Institutional Index fund | 8% | 10% |
| PIMCO fixed income funds | 7% | 8% |
| Other funds | 37% | 39% |
| | 100% | 100% |

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Summary of Carrying Values

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

| | 2018 | 2017 |
|---|----------------|----------------|
| Carrying value | | |
| Deposits | \$ 35,003,440 | \$ 46,576,000 |
| Investments | 161,492,861 | 192,592,131 |
| | \$ 196,496,301 | \$ 239,168,131 |
| Included in the following balance sheets captions | | |
| Cash and cash equivalents | \$ 35,003,440 | \$ 45,367,166 |
| Noncurrent cash and investments | 161,492,861 | 193,800,965 |
| | \$ 196,496,301 | \$ 239,168,131 |

Investment Return

Investment return for the years ended December 31, 2018 and 2017 consisted of:

| | 2018 | 2017 |
|--|----------------|---------------|
| Interest and dividend income | \$ 15,251,446 | \$ 5,961,964 |
| Net (decrease) increase in fair value of investments | (18,870,279) | 12,386,569 |
| | \$ (3,618,833) | \$ 18,348,533 |

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Note 6: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of accounts receivable from patients and third-party payers at December 31, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|--------------------------|-------------|-------------|
| Medicare | 35.4% | 37.4% |
| Medicaid | 16.1% | 16.9% |
| Other third-party payers | 40.7% | 37.2% |
| Individual patients | 7.8% | 8.5% |
| | 100.0% | 100.0% |

Note 7: Deferred Compensation Plan

Prior to 2016, CRHP maintained an IRS Code Section 457(B) plan for the benefit of certain highly compensated employees. The plan allowed for employee contributions only. The plan was dissolved on January 1, 2016, but the plan assets are still held by CRHP, separate from all other assets and reported within noncurrent cash and investments on the balance sheets.

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

| | 2018 | 2017 |
|--|--------------|--------------|
| Deferred compensation investments, beginning of year | \$ 4,609,764 | \$ 3,967,329 |
| Investment (losses) gains | (611,573) | 642,435 |
| Deferred compensation investments, end of year | \$ 3,998,191 | \$ 4,609,764 |

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Note 8: Investment in and Advances to Equity Investees

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

| Company Name - Description | 2018 Ownership % | 2018 Investment Amount | 2017 Investment Amount |
|--|------------------------|------------------------------|------------------------------|
| Brown County Medical Coop LLC - Medical Office Building | 50.00% | \$ 532,173 | \$ 552,862 |
| St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation | 10.00% | 450,000 | 450,000 |
| RCG Columbus, LLC - Outpatient Renal Dialysis Services | 12.25% | 157,670 | 157,670 |
| United Hospital Services, LLC - Laundry Services | 4.35% | 262,722 | 262,722 |
| inSpire Health Partners, LLC - Integrated Network | 50.00% | 589,062 | - |
| Southern Indiana Health Organization, Inc. Tecumseh Health Reciprocal Risk Retention Group (formerly Indiana Healthcare) | 16.43% | 450,000 | 450,000 |
| Fair Oaks Community Development Corporation | 7.14% | 335,311 | 335,311 |
| | 25.00% | <u>1,362,500</u> | <u>-</u> |
| Total | | <u>\$ 4,139,438</u> | <u>\$ 2,208,565</u> |

Note 9: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 was:

| | Beginning Balance | 2018 | | | Ending Balance |
|--------------------------------------|-----------------------|----------------------|-----------------------|-------------|-----------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 2,717,554 | \$ - | \$ (445,014) | \$ - | \$ 2,272,540 |
| Land improvements | 20,075,468 | 798,201 | - | - | 20,873,669 |
| Buildings and leasehold improvements | 216,907,585 | 4,571,211 | (1,431,848) | 3,482,466 | 223,529,414 |
| Equipment | 158,795,380 | 15,243,656 | (27,865,577) | 674,779 | 146,848,238 |
| Construction in progress | 4,157,245 | 19,056,017 | - | (4,157,245) | 19,056,017 |
| | <u>402,653,232</u> | <u>39,669,085</u> | <u>(29,742,439)</u> | <u>-</u> | <u>412,579,878</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 11,077,525 | 567,028 | - | - | 11,644,553 |
| Buildings and leasehold improvements | 132,732,918 | 8,460,853 | (778,986) | - | 140,414,785 |
| Equipment | 117,028,180 | 13,494,168 | (27,511,809) | - | 103,010,539 |
| | <u>260,838,623</u> | <u>22,522,049</u> | <u>(28,290,795)</u> | <u>-</u> | <u>255,069,877</u> |
| | <u>\$ 141,814,609</u> | <u>\$ 17,147,036</u> | <u>\$ (1,451,644)</u> | <u>\$ -</u> | <u>\$ 157,510,001</u> |

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| | Beginning Balance | 2017 | | | Ending Balance |
|--------------------------------------|-----------------------|---------------------|-----------------------|-------------|-----------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 2,669,554 | \$ 48,000 | \$ - | \$ - | \$ 2,717,554 |
| Land improvements | 21,540,246 | 26,780 | (1,491,558) | - | 20,075,468 |
| Buildings and leasehold improvements | 221,518,366 | 2,930,177 | (9,134,826) | 1,593,868 | 216,907,585 |
| Equipment | 143,496,267 | 18,569,602 | (5,744,233) | 2,473,744 | 158,795,380 |
| Construction in progress | 5,120,747 | 3,104,110 | - | (4,067,612) | 4,157,245 |
| | <u>394,345,180</u> | <u>24,678,669</u> | <u>(16,370,617)</u> | <u>-</u> | <u>402,653,232</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 11,865,705 | 583,713 | (1,371,893) | - | 11,077,525 |
| Buildings and leasehold improvements | 131,094,306 | 8,509,980 | (6,871,368) | - | 132,732,918 |
| Equipment | 110,759,306 | 11,236,715 | (4,967,841) | - | 117,028,180 |
| | <u>253,719,317</u> | <u>20,330,408</u> | <u>(13,211,102)</u> | <u>-</u> | <u>260,838,623</u> |
| | <u>\$ 140,625,863</u> | <u>\$ 4,348,261</u> | <u>\$ (3,159,515)</u> | <u>\$ -</u> | <u>\$ 141,814,609</u> |

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

CRHP is provided insurance coverage through Innovative Physician Solutions (IPS), a risk retention group domiciled in Vermont. IPS provides medical malpractice insurance coverage for the physicians in Bartholomew County and the surrounding region. During 2018, the Hospital, along with two other organizations, agreed to guarantee a \$1,300,000 reserve line of credit for IPS. The Hospital's maximum contingent liability under the guarantee is \$350,000 and no amount was drawn on this line of credit in 2018. During 2019, the line of credit was increased to \$1,450,000, but the Hospital's maximum contingent liability did not change.

On January 1, 2017, Indiana Healthcare, a reciprocal risk retention group based out of Vermont providing captive insurance coverage, merged with 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. Indiana Healthcare being the surviving insurer was renamed Tecumseh Reciprocal Risk Retention Group. Columbus Regional Hospital's ownership share in Indiana Healthcare is one-fourteenth, or approximately 7%.

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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 2018 and 2017. The Hospital is also self-insured for worker's compensation claims. Commercial stop-loss insurance coverage is purchased for health claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Activity in the Hospital's accrued employee health claims liability, which is included in other accrued liabilities in the balance sheets, during 2018 and 2017 is summarized as follows:

| | 2018 | 2017 |
|---|--------------|--------------|
| Balance, beginning of year | \$ 2,432,502 | \$ 2,574,305 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 18,228,944 | 18,195,145 |
| Claims and expenses paid | (17,485,513) | (18,336,948) |
| Balance, end of year | \$ 3,175,933 | \$ 2,432,502 |

Note 12: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2018 and 2017:

| | Beginning Balance | Additions | 2018 Deductions | Ending Balance | Current Portion |
|---|------------------------------|------------------|----------------------------|---------------------------|----------------------------|
| Long-Term Debt and Capital Leases | | | | | |
| Indiana Health Facility Financing Authority | | | | | |
| Bonds Series 2014 | \$ 61,965,000 | \$ - | \$ (6,090,000) | \$ 55,875,000 | \$ 6,425,000 |
| Capital lease liability | 5,327 | - | (5,327) | - | - |
| Total long-term debt | \$ 61,970,327 | \$ - | \$ (6,095,327) | \$ 55,875,000 | \$ 6,425,000 |

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

Revenue Bonds Payable

In December 2014, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Hospital Revenue Bonds, Series 2014A and Series 2014B in the amount of \$74,205,000. The bonds were issued to refund the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B, and provide additional funding for a new capital project. Annual principal payments are due serially through August 1, 2044. Interest rates vary with London Interbank Offered Rate (LIBOR) and at December 31, 2018 was 3.07% for the Series 2014A and 2.91% 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, 2018, are as follows:

| Years Ending December 31 | Total to be Paid | Principal | Interest |
|--------------------------|----------------------|----------------------|----------------------|
| 2019 | 7,522,125 | 6,425,000 | 1,097,125 |
| 2020 | 7,750,659 | 6,780,000 | 970,659 |
| 2021 | 8,016,302 | 7,185,000 | 831,302 |
| 2022 | 1,948,359 | 1,220,000 | 728,359 |
| 2023 | 1,947,853 | 1,245,000 | 702,853 |
| 2024 - 2028 | 9,726,997 | 6,610,000 | 3,116,997 |
| 2029 - 2033 | 9,728,909 | 7,335,000 | 2,393,909 |
| 2034 - 2038 | 9,728,973 | 8,135,000 | 1,593,973 |
| 2039 - 2044 | 11,673,583 | 10,940,000 | 733,583 |
| | <u>\$ 68,043,760</u> | <u>\$ 55,875,000</u> | <u>\$ 12,168,760</u> |

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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 2019 and was subsequently renewed for another year. As of December 31, 2018 and 2017, there were no borrowings against this line of credit.

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, 2018 |
|----------------------|------------|----------------|------------------|--------------------------|---------------------------------|---------------------------------|
| \$ 7,455,000 | 7/22/2003 | 8/13/2003 | 8/1/2022 | 3.335% | 67% of LIBOR | \$ (252,709) |
| <u>8,370,000</u> | 6/8/2005 | 6/22/2005 | 8/1/2022 | 3.313% | 65.2% of LIBOR + .33% | <u>(230,620)</u> |
| <u>\$ 15,825,000</u> | | | | | | <u>\$ (483,329)</u> |

| Notional Amount | Trade Date | Effective Date | Termination Date | Fixed Rate Hospital Pays | Variable Rate Hospital Receives | Fair Value at December 31, 2017 |
|----------------------|------------|----------------|------------------|--------------------------|---------------------------------|---------------------------------|
| \$ 9,145,000 | 7/22/2003 | 8/13/2003 | 8/1/2022 | 3.335% | 67% of LIBOR | \$ (457,577) |
| <u>10,275,000</u> | 6/8/2005 | 6/22/2005 | 8/1/2022 | 3.313% | 65.2% of LIBOR + .33% | <u>(425,713)</u> |
| <u>\$ 19,420,000</u> | | | | | | <u>\$ (883,290)</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 \$399,961 and \$558,789 for the years ended December 31, 2018 and 2017, 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, 2018, 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 |
| \$ 3,790,000 | \$ 12,035,000 | \$ - | \$ - |

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, 2018 and 2017. The Hospital does not currently have a policy of requiring the counterparty to 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 2018 and 2017 is summarized as follows:

| | 2018 | 2017 |
|----------------------------|--------------|----------------|
| Balance, beginning of year | \$ (883,290) | \$ (1,442,079) |
| Change in market value | 399,961 | 558,789 |
| Balance, end of year | \$ (483,329) | \$ (883,290) |

Swap Payments and Associated Debt

Using rates as of December 31, 2018, 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 | | |
| 2019 | \$ 6,425,000 | \$ 1,097,125 | \$ 148,118 | \$ 7,670,243 |
| 2020 | 6,780,000 | 970,659 | 106,474 | 7,857,133 |
| 2021 | 7,185,000 | 831,302 | 63,457 | 8,079,759 |
| 2022 | 1,220,000 | 728,359 | 165,280 | 2,113,639 |
| 2023 | 1,245,000 | 702,853 | - | 1,947,853 |
| 2024 - 2028 | 6,610,000 | 3,116,997 | - | 9,726,997 |
| 2029 - 2033 | 7,335,000 | 2,393,909 | - | 9,728,909 |
| 2034 - 2038 | 8,135,000 | 1,593,973 | - | 9,728,973 |
| 2039 - 2044 | 10,940,000 | 733,583 | - | 11,673,583 |
| | \$ 55,875,000 | \$ 12,168,760 | \$ 483,329 | \$ 68,527,089 |

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Note 15: Restricted and Designated Net Position

At December 31, 2018 and 2017, restricted net position was available for the following purposes:

| | 2018 | 2017 |
|-------------------------------|-------------|--------------|
| Debt service | \$ - | \$ 1,208,834 |
| Capital acquisitions | - | 1,948 |
| Total restricted net position | \$ - | \$ 1,210,782 |

At December 31, 2018 and 2017, approximately \$157 million and \$189 million, respectively, of the Hospital's unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated portions of net position remain under the control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

Note 16: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2026. Total rental expense in 2018 and 2017 for all operating leases was approximately \$14,500,000 and \$11,900,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2018 that have initial or remaining lease terms in excess of one year:

| | |
|-------------------------------|---------------|
| 2019 | \$ 13,504,118 |
| 2020 | 12,214,365 |
| 2021 | 11,901,670 |
| 2022 | 9,212,794 |
| 2023 | 3,919,270 |
| Thereafter | 7,961,322 |
| Future minimum lease payments | \$ 58,713,539 |

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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, 2018 and 2017:

| | 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, 2018 | | | | |
| Investments by fair value level | | | | |
| Mutual funds - equity | \$ 74,993,784 | \$ 74,993,784 | \$ - | \$ - |
| Mutual funds - fixed income | 86,362,250 | 86,362,250 | - | - |
| Total investments by fair value level | <u>\$ 161,356,034</u> | <u>\$ 161,356,034</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investment derivative instruments | | | | |
| Interest rate swap agreements | \$ 483,329 | \$ - | \$ 483,329 | \$ - |

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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, 2017 | | | | |
| Investments by fair value level | | | | |
| Mutual funds - equity | \$ 97,529,038 | \$ 97,529,038 | \$ - | \$ - |
| Mutual funds - fixed income | 94,867,930 | 94,867,930 | - | - |
| Money market mutual funds | 1,208,834 | 1,208,834 | - | - |
| | <u>193,605,802</u> | <u>193,605,802</u> | <u>-</u> | <u>-</u> |
| Total investments by fair value level | \$ 193,605,802 | \$ 193,605,802 | \$ - | \$ - |
| Investment derivative instruments | | | | |
| Interest rate swap agreements | \$ 883,290 | \$ - | \$ 883,290 | \$ - |

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

Defined-Contribution Retirement Plans

The Hospital maintains defined-contribution retirement plans for the benefit of substantially all of its employees. Under the plans, employee contributions are made into a 403(b) plan, while Hospital matching contributions are made into a 401(a) plan. Employee contributions are allowed up to the maximum allowable by law. The Hospital's matching of contributions ranges from a minimum of 2% to a maximum of 6%, dependent upon years of employment and level of salary deferral. For the years ended December 31, 2018 and 2017, the Hospital made \$4,631,269 and \$4,460,614 of contributions to the plans.

Note 19: Commitments and Contingencies

Commitments

As of December 31, 2018, the Hospital had material commitments for the acquisition of capital assets totaling approximately \$10.5 million, primarily for a new electronic medical record (EMR) system for the Hospital. The contract with EPIC System Corporation, signed in December 2017, will replace the existing EMR software currently being used by the Hospital. Implementation of the new EMR system is ongoing and is scheduled to go-live during 2019.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements December 31, 2018 and 2017

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 | 2018 | 2017 |
|--|----------------------|----------------------|
| Southeastern Indiana Health Management, Inc. (SIHM) | | |
| Hospital purchases management services | | |
| Management services expense | \$ 5,346,100 | \$ 4,699,044 |
| Rent expense | 195,111 | 211,050 |
| Concierge expense | 83,553 | 80,017 |
| Notes receivable | 23,726,891 | 14,105,497 |
| Investment income | 835,701 | 131,800 |
| Contribution expense | 703,901 | - |
| Contract services reimbursed | 15,978,765 | 16,314,234 |
| Employee benefit reimbursement received | 149,716 | 171,187 |
| Miscellaneous income | 2,000 | 15,020 |
| Other receivables | 31,813 | 49,357 |
| Accounts payable | 1,676,665 | 1,577,489 |
| Notes receivable (including interest) due from SIHM, which are secured by real estate, are made up of the following: | | |
| Long-term note due July 1, 2020, interest of 4% | \$ 3,294,994 | \$ 3,294,994 |
| Long-term notes due March 1, 2026, interest of 0% | 20,431,897 | 10,810,503 |
| | <u>\$ 23,726,891</u> | <u>\$ 14,105,497</u> |
| Columbus Regional Health Foundation, Inc. | | |
| Hospital receives donations and makes contributions | | |
| Contributions to the Foundation | \$ 1,037,000 | \$ 696,855 |
| Contributions received from the Foundation | 572,010 | 446,356 |
| Other receivables | 339,552 | 151,537 |
| Our Hospice of South Central Indiana, Inc. | | |
| Hospital provides and purchases services | | |
| Operating expenses | \$ 114,742 | \$ 97,331 |
| Miscellaneous sales to Hospice | 145,737 | 200,668 |
| Other receivables | 34,116 | 148,655 |

During 2018, Southeastern Indiana Health Management, Inc. (SIHM), a related party, sold the property associated with the \$3.3M note due July 2020, to an unrelated third party. Subsequently, in 2019, SIHM paid off the aforementioned note by transferring the sale proceeds to the Hospital.

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

Independent Auditor's Report

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Columbus Regional Hospital (Hospital), which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Indianapolis, Indiana
April 25, 2019