

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana

Auditor's Report and Financial Statements

December 31, 2019 and 2018

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
December 31, 2019 and 2018

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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 financial statements of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 14, 2020, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
May 14, 2020

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2019
(Unaudited)

Introduction

This management's discussion and analysis of the financial performance of Columbus Regional Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise indicated, amounts are in millions.

Financial Highlights

- Cash and investments decreased in 2019 and 2018 by \$2.3 million and \$42.7 million, or 1.2 percent and 17.8 percent, respectively.
- The Hospital's net position increased in 2019 by \$18.9 million (5.7 percent) and decreased in 2018 by \$12.2 million (3.6 percent).
- The Hospital reported operating losses in both 2019 (\$3.7 million) and 2018 (\$4.0 million). The operating loss in 2019 improved by \$0.3 million, or 6.3 percent, compared to 2018. The operating loss in 2018 worsened by \$6.4 million as compared to the operating income of \$2.4 million reported in 2017.
- Net nonoperating activity increased by \$30.8 million in 2019 compared to 2018. Net nonoperating activity in 2018 decreased by \$22.7 million compared to 2017.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. The Hospital's financial statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets, liabilities and deferred inflows and 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 Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet.

	Selected Financial Data and Statistics (Dollars in Thousands)		
	2019	2018	2017
Summary of Operations			
Revenues	\$ 457,634	\$ 439,484	\$ 412,093
Salaries and benefits	169,338	160,836	153,573
Supplies and drugs	66,163	61,034	54,819
Purchased services and other operating expenses	201,664	199,070	180,940
Depreciation	24,196	22,522	20,330
Total expenses	<u>461,361</u>	<u>443,462</u>	<u>409,662</u>
(Loss) income from operations	(3,727)	(3,978)	2,431
Nonoperating income (expense), net	<u>22,585</u>	<u>(8,201)</u>	<u>14,495</u>
Increase (decrease) in net position	<u>\$ 18,858</u>	<u>\$ (12,179)</u>	<u>\$ 16,926</u>
Cash Flow Data			
Cash provided by operating activities	\$ 7,833	\$ 20,749	\$ 37,694
Cash used in noncapital activities	(1,783)	(1,901)	(1,477)
Cash used in capital and related financing activities	(38,136)	(47,533)	(31,299)
Cash provided by (used in) investing activities	28,795	17,113	(4,870)
Financial Position			
Patient accounts receivable, net	\$ 54,641	\$ 46,655	\$ 46,730
Other current assets	58,584	59,359	64,281
Capital assets, net	175,209	157,510	141,815
Other noncurrent assets and deferred outflows of resources	<u>175,797</u>	<u>191,674</u>	<u>216,525</u>
Total assets and deferred outflows of resources	<u>\$ 464,231</u>	<u>\$ 455,198</u>	<u>\$ 469,351</u>
Long-term debt, including current portion	\$ 49,450	\$ 55,875	\$ 61,970
Other liabilities and deferred inflows of resources	<u>67,498</u>	<u>70,897</u>	<u>66,778</u>
Total liabilities and deferred inflows of resources	<u>\$ 116,948</u>	<u>\$ 126,772</u>	<u>\$ 128,748</u>
Unrestricted net position	\$ 221,524	\$ 226,791	\$ 259,548
Net investment in capital assets	125,759	101,635	79,844
Restricted net position	<u>-</u>	<u>-</u>	<u>1,211</u>
Total net position	<u>\$ 347,283</u>	<u>\$ 328,426</u>	<u>\$ 340,603</u>
Days cash on hand	157.4	165.9	217.8
Hospital Operating Data			
Number of beds (available for use)	181	235	232
Inpatient discharges	8,940	9,507	9,221
Average daily census	89	97	95
Average length of stay	3.6	3.7	3.8
Occupancy	52%	41%	40%
Inpatient case mix	1.5167	1.4839	1.4658
Outpatient visits	252,407	252,735	254,268

A significant change in the Hospital’s assets in 2019 is the increase in patient accounts receivable. While revenues increased by 4.1 percent in 2019, net patient accounts receivable increased by 17.1 percent (or \$8.0 million), bringing accounts receivable to 46.7 days of revenue at December 31, 2019. The increase results primarily from delays in filing claims with third-party payers and other revenue cycle matters, caused by the implementation of a new electronic medical records software (EPIC) during July 2019.

Another significant change in the Hospital’s financial position in 2019 was the increase in capital assets (\$17.7 million or 11.2 percent), which largely stemmed from the implementation and continued capitalization of the aforementioned EPIC project. Further discussion can also be found below in the *Capital Assets* section.

Operating Results and Changes in the Hospital’s Net Position

As previously mentioned, the Hospital’s net position increased in 2019 by \$18.9 million (5.7 percent) and decreased in 2018 by \$12.2 million (3.6 percent). Operating results are discussed below.

The Hospital was formed and is operated primarily to serve residents of Bartholomew County and the surrounding area. The first component of the overall change in the Hospital’s net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital reported an operating loss of \$3.7 million in 2019 and an operating loss of \$4.0 million in 2018.

The operating loss for 2019 remained steady, improving by \$0.3 million, when compared to 2018. The primary components of the Hospital’s operating results are:

- Net patient service revenue, which saw a year-over-year increase of \$16.6 million (3.8 percent).
- Salaries, wages, and benefits, which saw a year-over year increase of \$8.5 million (5.3 percent).
- Supplies expense, which saw a year-over-year increase of \$5.1 million (8.4 percent)
- Hospital assessment fee, which saw a year-over-year increase of \$2.9 million (23.8 percent)

The increase in net patient service revenue was entirely attributable to outpatient services. While outpatient volumes as a whole remained flat year-over-year, higher volumes in the Hospital’s operating rooms and oncology practice led to enhanced revenue. Refer to the below tables, which display the number of patients served by the Hospital over the past three years, as well as the approximate percentages of gross patient revenues by payer for the Hospital (excluding CRHP and other blended component units).

Year	Inpatients	Outpatients	Total
2019	8,940	252,407	261,347
2018	9,507	252,735	262,242
2017	9,221	254,268	263,489

	2019	2018	2017
Medicare	50.5%	49.3%	49.4%
Medicaid	14.2%	15.4%	15.3%
Managed care plans	28.6%	28.9%	28.9%
Other	6.7%	6.4%	6.4%

Employee salaries, wages and benefits increased in 2019 from inflationary and other wage increases and an uptick in the overall workforce, largely within the Hospital's physician practices, stemming from continued retention and recruitment efforts.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2018, medical supplies and prescription drug costs totaled \$61.0 million or 13.8 percent of total operating expenses. In 2019, they totaled \$66.2 million or 14.3 percent of total operating expenses, an increase of \$5.1 million (8.4 percent) over 2018. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, and higher costs associated with drugs used by the Hospital's growing oncology practice.

Nonoperating Income and Expenses

Nonoperating income and expenses consist primarily of investment income and interest expense. The Hospital recognized a significant increase in its investment return in 2019 (gain of \$26.0 million) compared to 2018 (loss of \$3.6 million), resulting primarily from favorable changes in interest rates and growth in the overall market. Interest expense remained steady between years, with \$2.1 million of expense in 2019 and \$2.5 million of expense in 2018.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are generally consistent with changes in operating income and nonoperating activity for 2019, 2018 and 2017, discussed earlier. Despite operating losses in the two most recent years, cash flows from operating activities have remained strong, at \$7.8 million in 2019 and \$20.7 million in 2018. The same can be said for investment activities, with cash generated from those activities of \$28.8 million in 2019 and \$17.1 million in 2018. Over the past three years, the Hospital has used a considerable amount of cash on capital and related financing activities, with cash used of \$38.1 million, \$47.5 million, and \$31.3 million for 2019, 2018, and 2017, respectively. The largest contributing factor to capital cash flow numbers for 2019 and 2018 is the outlay of funds for the EPIC project.

Capital Assets

At the end of 2019, the Hospital had \$175.2 million invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements. In 2019, the Hospital purchased new property and equipment costing \$27.6 million. Of this amount, approximately \$15.5 million relates to the aforementioned EPIC project. The remainder was spent on additional equipment (\$4.0 million), buildings and improvements (\$2.8 million), and for projects still in progress as of December 31, 2019 (\$4.7 million).

In addition, in November 2019, the Hospital was gifted and transferred \$14.4 million of property from a related party through a formal conveyance and transfer of deed. Further details are included in Note 20 to the financial statements.

Debt

At December 31, 2019, the Hospital had \$49.5 million in revenue bonds outstanding, financed through the Indiana Health Facility Financing Authority Bonds Series 2014. These revenue bonds are subject to limitations imposed by state law. Over the past three years, there have been no changes in the Hospital's debt ratings, and the Hospital has issued no new debt.

Other Economic Factors

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.

In addition, in late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. In 2020, the spread of COVID-19 began to cause some business disruption across the healthcare industry and for the Hospital specifically through reduced patient revenue, specifically related to elective procedures and physician office visits. The spread of COVID-19 has also led to significant declines and overall volatility in investment markets, both nationally and globally.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital 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, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 31,711,624	\$ 35,003,440
Patient accounts receivable, less allowance for uncollectible accounts (\$9,400,000 in 2019 and \$8,400,000 in 2018)	54,641,353	46,655,177
Other receivables	9,166,080	9,158,405
Inventories	5,639,599	5,413,403
Prepaid expenses	8,771,191	6,510,663
Notes receivable, related party - current portion	3,294,994	3,273,000
Total current assets	113,224,841	106,014,088
Noncurrent Cash and Investments		
Internally designated	157,719,205	157,494,670
Deferred compensation investments	4,771,518	3,998,191
Total noncurrent cash and investments	162,490,723	161,492,861
Capital Assets, Net	175,208,672	157,510,001
Other Assets		
Notes receivable, related party	3,304,676	20,453,891
Joint venture investments, notes receivable, and other	9,332,068	8,801,260
Total other assets	12,636,744	29,255,151
Total assets	463,560,980	454,272,101
Deferred Outflows of Resources		
	669,550	925,586
Total assets and deferred outflows of resources	\$ 464,230,530	\$ 455,197,687

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 18,740,375	\$ 20,536,419
Salaries, wages and related liabilities	16,424,504	15,982,003
Estimated third-party payer settlements	1,869,190	1,101,842
Deferred Medicaid revenue	-	4,290,665
Other accrued liabilities	25,318,276	24,507,343
Current portion of long-term debt	<u>6,780,000</u>	<u>6,425,000</u>
Total current liabilities	69,132,345	72,843,272
Deferred Compensation Liability	4,771,518	3,998,191
Fair Value of Interest Rate Swap Agreements	373,942	481,369
Long-Term Obligations	<u>42,670,000</u>	<u>49,450,000</u>
Total liabilities	<u>116,947,805</u>	<u>126,772,832</u>
Net Position		
Unrestricted	221,524,053	226,789,854
Net investment in capital assets	<u>125,758,672</u>	<u>101,635,001</u>
Total net position	<u>347,282,725</u>	<u>328,424,855</u>
Total liabilities and net position	<u>\$ 464,230,530</u>	<u>\$ 455,197,687</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$13,120,708 in 2019 and \$12,607,306 in 2018	\$ 449,927,558	\$ 433,345,773
Other operating revenue	7,706,041	6,138,251
Total operating revenue	457,633,599	439,484,024
Operating Expenses		
Salaries and wages	135,215,228	128,144,333
Employee benefits	34,123,020	32,691,670
Fees	18,060,581	18,740,132
Supplies	66,162,997	61,034,097
Purchased services	157,273,116	156,929,070
Depreciation	24,196,493	22,522,049
Insurance	4,868,528	4,924,929
Hospital assessment fee	15,106,397	12,201,088
Other	6,354,755	6,274,146
Total operating expenses	461,361,115	443,461,514
Operating Loss	(3,727,516)	(3,977,490)
Nonoperating Income (Expense)		
Investment return	26,008,691	(3,618,833)
Interest expense	(2,118,575)	(2,501,072)
Contributions to related organizations, net	(339,652)	(670,920)
Other nonoperating expense	(965,078)	(1,409,686)
Total nonoperating income (expense)	22,585,386	(8,200,511)
Increase (Decrease) in Net Position	18,857,870	(12,178,001)
Net Position, Beginning of Year	328,424,855	340,602,856
Net Position, End of Year	\$ 347,282,725	\$ 328,424,855

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Cash received from patients and third-party payers	\$ 438,418,065	\$ 437,047,314
Cash payments to employees for services	(168,353,065)	(156,697,920)
Cash payments to suppliers for goods and services	(269,930,038)	(264,705,496)
Other cash received	7,698,366	5,104,754
Net cash provided by operating activities	7,833,328	20,748,652
Noncapital Financing Activities		
Contributions to related parties	(845,431)	(670,920)
Other nonoperating	(938,063)	(1,230,497)
Net cash used in noncapital financing activities	(1,783,494)	(1,901,417)
Capital and Related Financing Activities		
Principal paid on long-term debt	(6,425,000)	(6,095,327)
Interest paid on long-term debt	(1,969,966)	(2,352,113)
Acquisition and construction of capital assets	(29,741,283)	(39,620,058)
Proceeds from sale of capital assets	-	534,439
Net cash used in capital and related financing activities	(38,136,249)	(47,533,059)
Investing Activities		
Interest and dividend income	13,147,359	15,251,446
Purchases of investments in assets limited as to use	(43,099,903)	(37,132,582)
Disbursements for notes receivable	(800,308)	(11,644,603)
Collections of notes receivable	3,810,751	1,889,003
Sales of investments in assets limited as to use	55,736,700	48,750,000
Net cash provided by investing activities	28,794,599	17,113,264
Net Decrease in Cash and Cash Equivalents	(3,291,816)	(11,572,560)
Cash and Cash Equivalents at Beginning of Year	35,003,440	46,576,000
Cash and Cash Equivalents at End of Year	\$ 31,711,624	\$ 35,003,440

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (3,727,516)	\$ (3,977,490)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	24,196,493	22,522,049
Provision for uncollectible accounts	13,120,708	12,607,306
Change in assets and liabilities		
Patient accounts receivable and third-party settlements	(24,630,201)	(8,905,765)
Other assets	(2,762,650)	(3,693,956)
Current liabilities	1,636,494	2,196,508
Net cash provided by operating activities	\$ 7,833,328	\$ 20,748,652
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	\$ (2,179,104)	\$ 48,086
Disposals of long-term care property and equipment through a reduction of management fees payable	-	737,075
Property and equipment transferred from related party	14,360,000	-
Notes payable transferred from related party	13,854,221	-

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

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.

The financial statements include the accounts of Columbus Regional Health Physicians, LLC (CRHP); Columbus Area Radiology, LLC (dba Columbus Diagnostic Imaging, or CDI); and Columbus Regional Health System Services, LLC (CRHSS), which was formed in 2019. 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, 2019 and 2018

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, deferred outflows of resources 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, 2019 and 2018, 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.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2019 and 2018

Patient Accounts Receivable

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

Inventories

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

Deferred Compensation Investments

Investments related to a deferred compensation plan, which was available to certain highly compensated employees of CRHP prior to 2016, 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.

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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:

	2019	2018
Deferred losses on debt refundings	\$ 295,608	\$ 444,217
Fair value of interest rate swap agreements	373,942	481,369
Total deferred outflows of resources	\$ 669,550	\$ 925,586

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.

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Net Position

Net position of the Hospital is classified in two 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. Unrestricted net position is remaining assets, less remaining liabilities, that do not meet the definition of investment in capital assets, if any.

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.

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 and CRHSS, which are limited liability companies, are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to their members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

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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.

Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of our investment portfolio.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Hospital expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

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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), Columbus Diagnostic Imaging (CDI), and Columbus Regional Health System Services (CRHSS), as discussed in Note 1.

The following is a financial summary of the Hospital and the component units as of December 31, 2019:

	2019					
	Hospital	CRHP	CRHSS	CDI	Eliminations	Total
Total current assets	\$ 102,780,701	\$ 9,946,915	\$ 322,239	\$ 806,595	\$ (631,609)	\$ 113,224,841
Total noncurrent cash and investments	157,719,205	4,771,518	-	-	-	162,490,723
Capital assets, net	151,932,681	6,133,210	15,959,453	1,183,328	-	175,208,672
Total other assets	12,636,744	-	-	-	-	12,636,744
Deferred outflows of resources	669,550	-	-	-	-	669,550
Total assets and deferred outflows of resources	\$ 425,738,881	\$ 20,851,643	\$ 16,281,692	\$ 1,989,923	\$ (631,609)	\$ 464,230,530
Total current liabilities	\$ 61,062,924	\$ 8,445,034	\$ 302	\$ 255,694	\$ (631,609)	\$ 69,132,345
Total other liabilities	43,043,942	4,771,518	-	-	-	47,815,460
Net position - unrestricted	219,149,334	1,501,881	321,937	550,901	-	221,524,053
Net position - net investment in capital assets	102,482,681	6,133,210	15,959,453	1,183,328	-	125,758,672
Total liabilities and net position	\$ 425,738,881	\$ 20,851,643	\$ 16,281,692	\$ 1,989,923	\$ (631,609)	\$ 464,230,530
Operating revenue	\$ 413,973,846	\$ 46,000,726	\$ 15,793	\$ 2,348,190	\$ (4,704,956)	\$ 457,633,599
Depreciation	(23,114,037)	(736,917)	(4,398)	(341,141)	-	(24,196,493)
Other operating expenses	(357,693,220)	(81,550,913)	(28,997)	(2,596,448)	4,704,956	(437,164,622)
Operating income (loss)	33,166,589	(36,287,104)	(17,602)	(589,399)	-	(3,727,516)
Nonoperating income (expense)	22,265,656	(164,854)	504,771	(20,187)	-	22,585,386
Equity transfers	(54,749,607)	38,408,463	15,794,221	546,923	-	-
Change in net position	682,638	1,956,505	16,281,390	(62,663)	-	18,857,870
Net position, beginning of year	320,949,377	5,678,586	-	1,796,892	-	328,424,855
Net position, end of year	\$ 321,632,015	\$ 7,635,091	\$ 16,281,390	\$ 1,734,229	\$ -	\$ 347,282,725
	2019					
	Hospital	CRHP	CRHSS	CDI	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 43,778,634	\$ (36,250,449)	\$ -	\$ 305,143	\$ -	\$ 7,833,328
Net cash used in noncapital financing activities	(1,618,844)	(164,650)	-	-	-	(1,783,494)
Net cash provided by (used in) capital and related financing activities	(36,100,460)	(2,257,034)	318,314	(97,069)	-	(38,136,249)
Net cash provided by (used in) investing activities	(9,613,864)	38,408,463	-	-	-	28,794,599
Net increase (decrease) in cash and cash equivalents	(3,554,534)	(263,670)	318,314	208,074	-	(3,291,816)
Cash and cash equivalents at beginning of year	33,290,428	1,490,026	-	222,986	-	35,003,440
Cash and cash equivalents at end of year	\$ 29,735,894	\$ 1,226,356	\$ 318,314	\$ 431,060	\$ -	\$ 31,711,624

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

	2018					
	Hospital	CRHP	CRHSS	CDI	Eliminations	Total
Total current assets	\$ 97,394,777	\$ 8,546,591	\$ -	\$ 587,896	\$ (515,176)	\$ 106,014,088
Total noncurrent cash and investments	157,494,670	3,998,191	-	-	-	161,492,861
Capital assets, net	151,469,304	4,613,297	-	1,427,400	-	157,510,001
Total other assets	29,268,742	-	-	-	(13,591)	29,255,151
Deferred outflows of resources	925,586	-	-	-	-	925,586
Total assets and deferred outflows of resources	\$ 436,553,079	\$ 17,158,079	\$ -	\$ 2,015,296	\$ (528,767)	\$ 455,197,687
Total current liabilities	\$ 65,672,333	\$ 7,481,302	\$ -	\$ 218,404	\$ (528,767)	\$ 72,843,272
Total other liabilities	49,931,369	3,998,191	-	-	-	53,929,560
Net position - unrestricted	225,355,073	1,065,289	-	369,492	-	226,789,854
Net position - net investment in capital assets	95,594,304	4,613,297	-	1,427,400	-	101,635,001
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
Depreciation	(21,680,378)	(624,430)	-	(217,241)	-	(22,522,049)
Other operating expenses	(348,299,178)	(74,975,685)	-	(2,259,060)	4,594,458	(420,939,465)
Operating income (loss)	34,720,183	(38,240,476)	-	(457,197)	-	(3,977,490)
Nonoperating income (expense)	(8,042,279)	(142,068)	-	(16,164)	-	(8,200,511)
Equity transfers	(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	CRHSS	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

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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 Hospital (DSH) Revenue. The Hospital qualifies as a Medicaid 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 \$7.3 million and \$7.2 million of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2019 and 2018, respectively. At December 31, 2018, approximately \$4.3 million of these supplemental Medicaid payments were deferred and recognized in 2019.

The Hospital participates in a state specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$15.1 million and \$12.2 million of fees related to the program in 2019 and 2018, 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 in the future.

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Approximately 52% and 53% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, 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 \$17.3 million and \$18.5 million related to this supplemental payment program for the years ended December 31, 2019 and 2018, 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 2019 decreased by approximately \$1.7 million due to removal of previously estimated amounts. Net patient revenue for 2018 increased by approximately \$4.6 million due to removal of previously estimated amounts.

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

	2019	2018
Gross patient charges		
Inpatients	\$ 276,094,177	\$ 277,271,208
Long-term care	114,756,483	115,350,543
Outpatients	559,719,399	493,775,801
Total	950,570,059	886,397,552
Charity care charges foregone	(15,172,508)	(13,454,463)
Provision for bad debt	(13,120,708)	(12,607,306)
Contractual allowances	(472,349,285)	(426,990,010)
Net patient service revenue	\$ 449,927,558	\$ 433,345,773

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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, 2019 and 2018, charges excluded from revenue under its charity policy were \$19.5 million and \$17.1 million, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$9.3 million for 2019 and \$8.5 million for 2018.

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.

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At December 31, 2019 and 2018, the Hospital had the following investments, all of which mature within one year:

	2019	2018
Investments		
Mutual funds	\$ 162,479,535	\$ 161,356,034
Interest receivable	11,188	136,827
	\$ 162,490,723	\$ 161,492,861

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, 2019 and 2018, 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.

Concentration of Credit Risk - The Hospital establishes ranges by investment category to limit investment concentration. At December 31, 2019 and 2018, the Hospital's investment in mutual funds consisted of:

	2019	2018
Scout Core Plus Bond Fund Institutional	26%	24%
Metropolitan West T/R Bond fund	26%	24%
Vanguard Institutional Index fund	12%	8%
Touchstone Sands Capital	9%	4%
Other funds	27%	40%
	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:

	2019	2018
Carrying value		
Deposits	\$ 31,711,624	\$ 35,003,440
Investments	<u>162,490,723</u>	<u>161,492,861</u>
	<u>\$ 194,202,347</u>	<u>\$ 196,496,301</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 31,711,624	\$ 35,003,440
Noncurrent cash and investments	<u>162,490,723</u>	<u>161,492,861</u>
	<u>\$ 194,202,347</u>	<u>\$ 196,496,301</u>

Investment Return

Investment return for the years ended December 31, 2019 and 2018 consisted of:

	2019	2018
Interest and dividend income	\$ 13,147,359	\$ 15,251,446
Net increase (decrease) in fair value of investments	<u>12,861,332</u>	<u>(18,870,279)</u>
	<u>\$ 26,008,691</u>	<u>\$ (3,618,833)</u>

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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, 2019 and 2018 was as follows:

	2019	2018
Medicare	37%	35%
Medicaid	15%	16%
Other third-party payers	37%	41%
Individual patients	11%	8%
	100%	100%

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:

	2019	2018
Deferred compensation investments, beginning of year	\$ 3,998,191	\$ 4,609,764
Investment gains (losses)	773,327	(611,573)
Deferred compensation investments, end of year	\$ 4,771,518	\$ 3,998,191

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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	2019 Ownership %	2019 Investment Amount	2018 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 360,000	\$ 532,173
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	157,670
United Hospital Services, LLC - Laundry Services	4.35%	262,722	262,722
inSpire Health Partners, LLC - Integrated Network	50.00%	409,529	589,062
Southern Indiana Health Organization, Inc.	50.00%	1,199,374	450,000
Tecumseh Health Reciprocal Risk Retention Group (formerly Indiana Healthcare)	7.14%	335,311	335,311
Fair Oaks Community Development Corporation	25.00%	<u>1,408,333</u>	<u>1,362,500</u>
Total		<u>\$ 4,607,190</u>	<u>\$ 4,139,438</u>

On January 1, 2020, CRH and the other 50% shareholder of inSpire Health Partners, LLC (inSpire) assigned their interests in inSpire to Southern Indiana Health Organization, Inc. (SIHO). No consideration was paid or received associated with the assignment. Given inSpire and SIHO each had a 50% ownership interest with the same third party 50% owner, the assignment will not result in a change in control of the respective assets, and therefore, the assignment is not expected to have a material difference in reported financial statement values.

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Note 10: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently 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 incurred between July 1, 2017 and June 30, 2019, 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. For claims incurred subsequent to June 30, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through insurance coverage, with the remainder due from the Fund.

CRHP was provided insurance coverage through Innovative Physician Solutions (IPS), a risk retention group domiciled in Vermont. IPS provided 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 was \$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, and no amount was drawn on the line of credit. In May 2019, the line of credit was canceled, and CRHP's coverage through IPS was dissolved. CRHP now maintains insurance coverage under the policy of the Hospital.

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 (Tecumseh). Columbus Regional Hospital's ownership share in Tecumseh 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 2019 and 2018. 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 and worker's compensation 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 and worker's compensation claims liability, which is included in other accrued liabilities in the balance sheets, during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 3,175,933	\$ 2,432,502
Current year claims incurred and changes in estimates for claims incurred in prior years	18,528,305	18,228,944
Claims and expenses paid	(18,612,712)	(17,485,513)
Balance, end of year	\$ 3,091,526	\$ 3,175,933

Note 12: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2019 and 2018:

	Beginning Balance	Additions	2019 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority					
Bonds Series 2014	\$ 55,875,000	\$ -	\$ (6,425,000)	\$ 49,450,000	\$ 6,780,000
Total long-term debt	\$ 55,875,000	\$ -	\$ (6,425,000)	\$ 49,450,000	\$ 6,780,000

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	Beginning Balance	2018		Ending Balance	Current Portion
		Additions	Deductions		
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	<u>61,970,327</u>	<u>-</u>	<u>(6,095,327)</u>	<u>55,875,000</u>	<u>6,425,000</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 the London Interbank Offered Rate (LIBOR). At December 31, 2019, the rate was 2.51% for the Series 2014A and 2.35% for the Series 2014B. At December 31, 2018, the rate 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, 2019, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
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	1,943,741	1,265,000	678,741
2025 - 2029	9,731,859	6,755,000	2,976,859
2030 - 2034	9,725,561	7,485,000	2,240,561
2035 - 2039	9,728,874	8,305,000	1,423,874
2040 - 2044	9,728,426	9,210,000	518,426
	<u>\$ 60,521,634</u>	<u>\$ 49,450,000</u>	<u>\$ 11,071,634</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 2020 and was subsequently renewed for another year. As of December 31, 2019 and 2018, 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, 2019
\$ 5,670,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (190,718)
<u>6,365,000</u>	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	<u>(183,224)</u>
<u>\$ 12,035,000</u>						<u>\$ (373,942)</u>

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>(228,660)</u>
<u>\$ 15,825,000</u>						<u>\$ (481,369)</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 \$107,427 and \$401,921 for the years ended December 31, 2019 and 2018, 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, 2019, 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
\$ 3,855,000	\$ 8,180,000	\$ -	\$ -

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, 2019 and 2018. 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 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ (481,369)	\$ (883,290)
Change in market value	107,427	401,921
Balance, end of year	\$ (373,942)	\$ (481,369)

Swap Payments and Associated Debt

Using rates as of December 31, 2019, 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		
2020	6,780,000	970,659	181,976	7,932,635
2021	7,185,000	831,302	108,453	8,124,755
2022	1,220,000	728,359	83,513	2,031,872
2023	1,245,000	702,853	-	1,947,853
2024	1,265,000	678,741	-	1,943,741
2025 - 2029	6,755,000	2,976,859	-	9,731,859
2030 - 2034	7,485,000	2,240,561	-	9,725,561
2035 - 2039	8,305,000	1,423,874	-	9,728,874
2040 - 2044	9,210,000	518,426	-	9,728,426
	\$ 49,450,000	\$ 11,071,634	\$ 373,942	\$ 60,895,576

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Note 15: Restricted and Designated Net Position

At December 31, 2019 and 2018, the Hospital has no restricted net position. At December 31, 2019 and 2018, approximately \$158 million and \$157 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 2019 and 2018 for all operating leases was approximately \$14.7 million and \$14.5 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2019 that have initial or remaining lease terms in excess of one year:

2020	\$ 14,216,896
2021	12,190,312
2022	9,612,318
2023	4,009,311
2024	3,257,573
Thereafter	<u>8,048,257</u>
Future minimum lease payments	<u><u>\$ 51,334,667</u></u>

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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, 2019 and 2018:

	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, 2019				
Investments by fair value level				
Mutual funds - equity	\$ 76,067,884	\$ 76,067,884	\$ -	\$ -
Mutual funds - fixed income	86,411,651	86,411,651	-	-
Total investments by fair value level	<u>\$ 162,479,535</u>	<u>\$ 162,479,535</u>	<u>\$ -</u>	<u>\$ -</u>
Investment derivative instruments				
Interest rate swap agreements	<u>\$ 373,942</u>	<u>\$ -</u>	<u>\$ 373,942</u>	<u>\$ -</u>

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December 31, 2019 and 2018

	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	\$ 485,289	\$ -	\$ 485,289	\$ -

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, 2019 and 2018, the Hospital made \$4,944,109 and \$4,631,269 of contributions to the plans.

Note 19: Commitments and Contingencies

Commitments

As of December 31, 2019, the Hospital had material commitments for the acquisition of capital assets totaling approximately \$3.6 million, primarily related to lab construction and associated equipment.

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
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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	2019	2018
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital provides and purchases management and other services		
Management services expense	\$ 4,963,836	\$ 5,346,100
Rent expense	181,157	195,111
Concierge expense	22,727	83,553
Notes receivable	6,599,670	23,726,891
Investment income	755,091	835,701
Contribution expense	623,291	703,901
Contract services reimbursed	15,124,014	15,978,765
Employee benefit reimbursement received	177,293	149,716
Miscellaneous income	2,000	2,000
Other receivables	872,609	31,813
Accounts payable	1,356,628	1,676,665
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%	3,304,676	20,431,897
	<u>\$ 6,599,670</u>	<u>\$ 23,726,891</u>
Columbus Regional Health Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 452,000	\$ 1,037,000
Contributions received from the Foundation	748,741	572,010
Other receivables	130,887	339,552
Our Hospice of South Central Indiana, Inc.		
Hospital provides and purchases services		
Operating expenses	\$ 107,509	\$ 114,742
Miscellaneous sales to Hospice	131,037	145,737
Other receivables	39,446	34,116
Rent expense paid to Hospice	127,536	127,536

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During 2018, Southeastern Indiana Health Management, Inc. (SIHM), a related party, sold the property associated with a \$3,273,000 note due to the Hospital, to an unrelated third party. In 2019, SIHM paid off the aforementioned note by transferring the sale proceeds to the Hospital.

During November 2019, SIHM gifted and transferred certain real estate to CRHSS through a formal conveyance and transfer of deed. The gifted real estate transferred had outstanding notes receivable with the Hospital that were simultaneously canceled with the real estate gift. The real estate transferred was recorded at lower of cost, or market, that approximated \$14,360,000. The cancelled loans by the Hospital had outstanding principal balances of \$13,854,221.

Note 21: Future Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*. The objective of this standard is to improve guidance regarding the identification of fiduciary activities, including certain postemployment benefit arrangements, for accounting and financial reporting purposes and how those activities should be reported. The standard establishes criteria for identifying fiduciary activities of all state and local governments. The new standard is effective for reporting periods beginning after December 15, 2019. The Hospital is evaluating the impact the standard will have on the financial statements, which could be material.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*. Under the standard, lessees will now be required to recognize substantially all long-term leases on the statement of net position as both a right-to-use asset and a lease liability. In addition, lessors will be required to recognize a lease receivable and a deferred inflow of resources. The new standard also requires leases to be evaluated for the identification of lease and non-lease components in a contract. The new standard is effective for reporting periods beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for existing operating leases.

**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, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2020.

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
May 14, 2020