

**HIGHLAND COUNTY JOINT TOWNSHIP
HOSPITAL DISTRICT**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

Board of Governors
Highland County Joint Township Hospital District
1275 North High Street
Hillsboro, Ohio 45133

We have reviewed the *Report of Independent Auditors* of the Highland County Joint Township Hospital District, Highland County, prepared by Blue & Co., LLC for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Highland County Joint Township Hospital District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 29, 2006

This Page is Intentionally Left Blank.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

TABLE OF CONTENTS DECEMBER 31, 2005 AND 2004

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (unaudited).....	i-viii
Combined Financial Statements	
Combined Balance Sheets.....	3
Combined Statements of Operations and Changes in Net Assets.....	5
Combined Statements of Cash Flows.....	6
Component Units – Combining Balance Sheet.....	8
Component Units – Combining Statement of Revenue, Expenses and Changes in net assets.....	12
Notes to Combined Financial Statements.....	14
Additional Information	
Report of Independent Auditors in Other Financial Information.....	35
Combining Balance Sheet	36
Combining Statement of Revenue, Expenses, and Changes in Net Assets.....	40
Combining Statement of Cash Flows.....	42
Report Letter on Compliance with Laws and Regulations and Internal Control – Basic Financial Statements.....	44



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees and Hospital Board of Governors
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT
AND COMPONENT UNITS
Hillsboro, Ohio

We have audited the accompanying combined and combining financial statements of Highland County Joint Township Hospital District (the Hospital) and component units (Highland District Hospital Foundation, Inc., Highland Joint Township District Hospital Foundation, PFW Professional Service Corporation and Highland District Hospital Professional Services Corporation), as of and for the year ended December 31, 2005 as listed in the table of contents. These combined and combining financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined and combining financial statements based on our audit. The combined and combining financial statements as of December 31, 2004 were audited by other auditors whose report dated February 21, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined and combining financial statements referred to above present fairly, in all material respects, the financial position of Highland County Joint Township Hospital District and component units as of December 31, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT
AND COMPONENT UNITS

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated March 17, 2006 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when considering the results of our audit.

Management's discussion and analysis on pages i through viii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

March 17, 2006

Highland County Joint Township Hospital District

Management's Discussion and Analysis

The discussion and analysis of Highland County Joint Township Hospital District's (the Organization) combined financial statements provides an overview of the Organization's financial activities for the year ended December 31, 2005 and 2004. While the financial statements reflect information for Highland District Hospital (the Hospital) and component units separately, this Management's discussion and analysis will focus on the information for the Hospital only. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

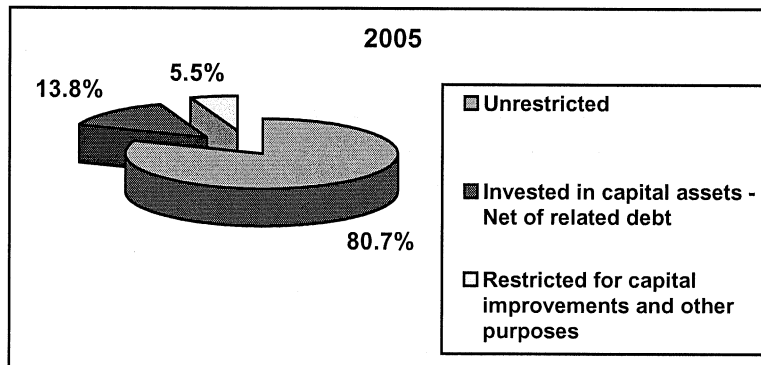
Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's financial position improved substantially during the year ended December 31, 2005. Cash and cash equivalents increased by \$2,679,500 or 35%, and the current assets increased by \$2,186,000 or 15% from the prior year. In total, the Hospital's net assets increased \$2,383,000 or 18% from the previous year. The increase in net assets resulted from increased patient revenue due to increasing outpatient volumes and continued restraint in operating expense growth.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2005.



Highland County Joint Township Hospital District

Management's Discussion and Analysis

In the year ended December 31, 2005, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$2,383,000 compared to a \$1,949,000 increase in the previous year.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2005:

	Year Ended December 31		Change	
	2005	2004	Amount	Percent
Assets:				
Current assets	\$ 16,736,265	\$ 14,549,878	\$ 2,186,387	15.0%
Noncurrent assets	3,870,603	5,210,863	(1,340,260)	-25.7%
Capital assets	14,738,989	13,755,193	983,796	7.2%
Total assets	35,345,857	33,515,934	1,829,923	5.5%
Liabilities:				
Current liabilities	4,393,865	4,336,699	57,166	1.3%
Long-term liabilities	15,105,330	15,715,131	(609,801)	-3.9%
Total liabilities	19,499,195	20,051,830	(552,635)	-2.8%
Net assets:				
Invested in capital assets - Net of debt	2,186,558	766,277	1,420,281	185.3%
Restricted assets	869,947	847,647	22,300	2.6%
Unrestricted	12,790,157	11,850,180	939,977	7.9%
Total net assets	\$ 15,846,662	\$ 13,464,104	\$ 2,382,558	17.7%

The increase in Net Assets Invested in Capital Assets – Net of Debt of \$1,420,000 reflected the cost of the reclad of the 1999 building and other capital projects, including a building addition to house a fixed site MRI unit and automated pharmacy equipment. The increase in unrestricted net assets of \$940,000, or 7.9%, reflects the improved operating performance for 2005.

Highland County Joint Township Hospital District

Management's Discussion and Analysis

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	Year Ended December 31		Change	
	2005	2004	Amount	Percent
Operating Revenue:				
Net patient service revenue	\$40,309,769	\$ 38,233,222	\$ 2,076,547	5.4%
Other	318,090	331,829	(13,739)	-4.1%
Total operating revenue	40,627,859	38,565,051	2,062,808	5.3%
Operating Expenses:				
Salaries and wages	15,105,318	14,558,493	546,825	3.8%
Employee benefits	5,227,635	4,969,735	257,900	5.2%
Supplies	5,631,900	5,186,419	445,481	8.6%
Purchased services	4,957,507	4,415,314	542,193	12.3%
Physicians fees	1,369,292	2,111,324	(742,032)	-35.1%
Depreciation and amortization	1,741,526	1,863,281	(121,755)	-6.5%
Professional fees	137,861	444,245	(306,384)	-69.0%
Utilities	835,806	782,535	53,271	6.8%
Insurance	417,524	542,086	(124,562)	-23.0%
Other	342,000	308,238	33,762	11.0%
Total expenses	35,766,369	35,181,670	584,699	1.7%
Operating income	4,861,490	3,383,381	1,478,109	43.7%
Nonoperating gains (losses):				
Investment income	335,536	89,958	245,578	273.0%
Interest earnings on restricted assets	22,299	8,775	13,524	154.1%
Interest expense	(853,643)	(816,818)	(36,825)	4.5%
Other	121,876	973,963	(852,087)	-87.5%
Total nonoperating gains (losses)	(373,932)	255,878	(629,810)	-246.1%
Revenue in excess of expenses	4,487,558	3,639,259	848,299	23.3%
Transfer to affiliates	(2,105,000)	(1,690,000)	(415,000)	24.6%
Increase in net assets	2,382,558	1,949,259	\$ 433,299	22.2%
Net assets: beginning of year	13,464,104	11,514,845		
Net assets: end of year	\$15,846,662	\$ 13,464,104		

Highland County Joint Township Hospital District

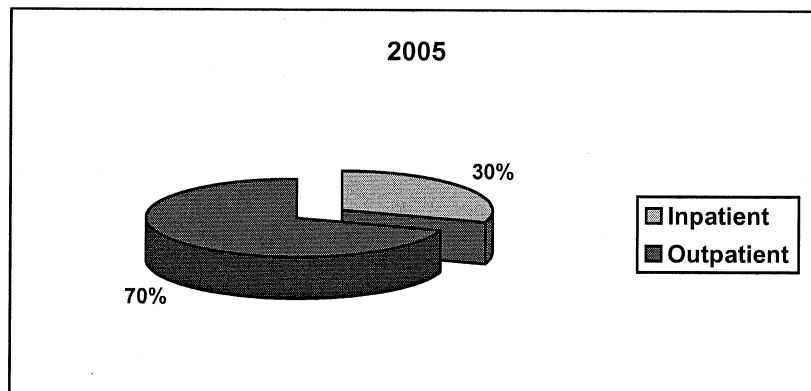
Management's Discussion and Analysis

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 5.4%. This was attributable to a modest increase in third-party payments and an increase in outpatient volume. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions increased from 42.3 % to 43.3 % of gross revenue.
- Other operating revenue declined 4.1% due primarily due to decreases in contributions, which were offset by grant income and increases in outside laboratory sales.
- The following is a graphic illustrations of patient revenues by source:



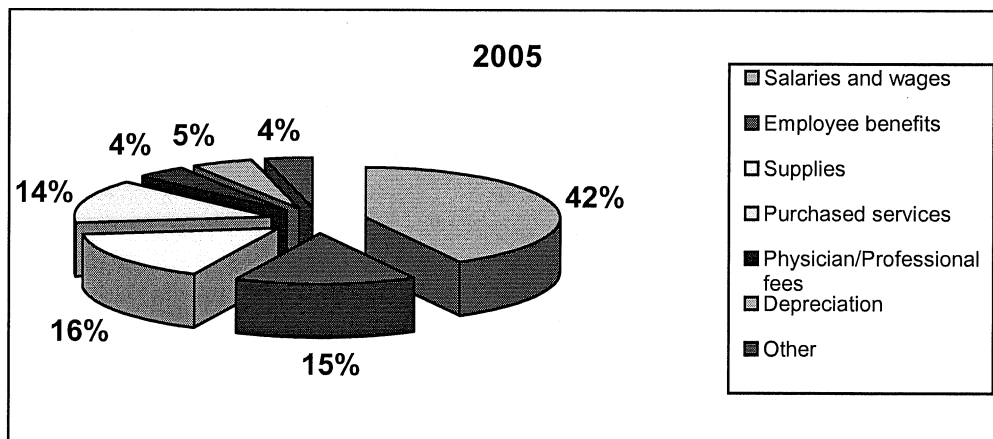
Highland County Joint Township Hospital District

Management's Discussion and Analysis

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 3.8% due to a 0.9% increase in the number of full time equivalents and salary adjustments to maintain market competitiveness.
- Benefits costs increased 5.2% due primarily to the cost of group health insurance premiums, which increased by 5.5%.
- Supplies increased 8.6%, and included \$346,000 or 6.7% from increased volumes in the pharmacy department and the related drug costs. Other than volume driven drug costs, supplies increased only 0.7% over last year.
- Purchased service cost increased 12.3%, due primarily to increased utilization of contract services necessary to supplement labor in scarce skill set areas, including particularly physical, occupational and speech therapy.
- Insurance costs declined 23%, reflecting the elimination of a claims reserve established several years ago. Exclusive of this adjustment, insurance costs declined 0.8%.
- Physician fees were reduced 35.1%, due primarily to changes in the Hospital's contract for emergency room physicians.
- Depreciation and amortization declined by 6.5% because of the intentional limitations made on capital expenditures of the last few years.
- Professional fees declined 69% as the legal costs of the 1999 building project lawsuits incurred in 2004 were eliminated in 2005.
- The following is a graphic illustration of operating expenses by type:



Highland County Joint Township Hospital District

Management's Discussion and Analysis

Non-operating Revenue

Non-operating revenue and expenses are all sources and uses that are primarily non-exchange in nature. They usually consist primarily of investment income including realized and unrealized gains and losses. Other non-operating gains declined from 2004 to 2005 primarily because the Hospital settled certain lawsuits related to the 1999 construction project in 2004, which resulted in a net gain of \$678,000.

Other Revenue/Changes in Net Assets

Other revenue/changes in net assets consist of items that are typically non recurring, extraordinary, or unusual to the Hospital. Examples would be capital grants, additions to permanent endowments, and transfers from related entities. Transfers from the Hospital to component units increased 24.6% in 2005. While the need for transfers in 2004 was lowered by significant reductions in affiliate accounts receivable, affiliate collections in 2005 normalized. During 2005, additional funds were transferred through net assets to allow affiliates to reduce long standing intercompany accounts payable balances.

Statement of Cash Flows

The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

	Year Ended December 31		Increase (Decrease)
	2005	2004	
Cash provided by (used in):			
Operating and nonoperating activities	\$ 6,729,524	\$ 7,087,789	\$ (358,265)
Capital and related financing activities	(4,174,565)	1,107,494	(5,282,059)
Investing activities	(1,218,931)	(253,243)	(965,688)
Total	1,336,028	7,942,040	(6,606,012)
Cash - beginning of year	11,033,899	3,091,859	7,942,040
Cash - end of year	\$ 12,369,927	\$ 11,033,899	1,336,028

Highland County Joint Township Hospital District

Management's Discussion and Analysis

The Hospital's cash position improved again during 2005 as cash and cash equivalents totaled \$12,370,000 in 2005 compared to \$11,034,000 in 2004. The following discussion highlights some of the significant components of cash flow presented above:

- Cash provided by operating and non-operating activities totaled \$6,730,000, which was \$358,000 less than in 2004. This apparent "decline" in cash flow is the result of the significant improvement in accounts receivable in 2004, which generated \$1,720,000. In 2005 net accounts receivable increased by \$76,000 but still represented an improvement in the number of days in accounts receivable outstanding at 38.6 in 2005 compared to 40.1 in 2004.
- Net cash used in capital and related financing activities was \$4,175,000 in 2005 as compared to net cash provided of \$1,107,000 in 2004. Cash flow in 2004 reflected the proceeds of the \$3,905,000 2004 bond issue while there was no new financing in 2005.
- Net cash from investing activities was a negative \$1,219,000 in 2005 compared to negative \$253,000 in 2004. This was due to the increase in transfers to affiliates and a reduction in the project fund investment draws used to fund capital projects.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2005, the Hospital had \$14,739,000 invested in capital assets, net of accumulated depreciation of \$16,851,000. Depreciation and amortization totaled \$1,741,000 for the current year compared to \$1,863,000 last year. Details of the historical cost of these assets for the past two years are shown below.

	Year Ended December 31		Increase (Decrease)
	2005	2004	
Land	\$ 15,437	\$ 15,437	\$ -
Land improvements	653,271	645,446	7,825
Buildings and improvements	10,327,641	10,273,775	53,866
Equipment	16,291,487	15,790,660	500,827
Construction in progress	4,302,281	2,212,334	2,089,947
Total	<u>\$ 31,590,117</u>	<u>\$ 28,937,652</u>	<u>\$ 2,652,465</u>

The growth in construction in progress reflected the cost of the building re clad project and the fixed site MRI. Depreciation on other capital assets exceeded investment in other capital assets for the year.

Highland County Joint Township Hospital District

Management's Discussion and Analysis

Debt

At year end, the Hospital had \$14,707,000 in long-term debt outstanding as compared to \$15,302,000 the previous year. The table below summarizes these amounts by type of debt instrument:

	Year Ended December 31		Increase (Decrease)
	2005	2004	
	(in thousands)		
Lease obligations	\$ 316,612	\$ 597,212	\$ (280,600)
Bonds and loans payable	<u>14,390,000</u>	<u>14,705,000</u>	<u>(315,000)</u>
Total long-term debt	<u>\$ 14,706,612</u>	<u>\$ 15,302,212</u>	<u>\$ (595,600)</u>

The Hospital has continued to pay down its other debt obligations as prescribed in the debt schedules. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Economic Factors that Will Affect the Future

On December 1, 2005, the Hospital was granted Critical Access status by the Centers for Medicare and Medicaid Services (CMS). As a result, the Hospital will be reimbursed for Medicare patients at the approximate cost of providing services plus 1%. However, the economic position of the Organization will be directly impacted by the future trends in federal and state reimbursement initiatives as well as local economic conditions. These factors will continue to pressure the net revenues realized from the delivery of patient care. Accordingly, the Organization will continue to strive for improved efficiencies and cost reductions so that operating margins can be maintained and enhanced to provide adequate cash flow to meet future community needs.

Contacting the Authority's Management

This financial report is intended to provide the reader with a general overview of the Organization's finances. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer.

Robert E. Kerr
Chief Financial Officer

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS DECEMBER 31, 2005 AND 2004

	2005		2004	
	Hospital	Component Units	Hospital	Component Units
Current assets				
Cash and cash equivalents	\$ 10,248,756	\$ 193,683	\$ 7,569,261	\$ 155,909
Assets limited as to use - current portion	803,905	-	1,186,827	-
Patient accounts receivable	4,264,308	270,318	4,188,218	293,672
Due from component unit	-	-	226,267	-
Inventories	447,389	-	354,945	-
Prepaid expenses and other current assets	614,777	164,347	530,182	158,240
Accrued interest receivable	9,139	-	5,006	-
Notes and grants receivable - current portion	110,036	-	250,073	-
Other receivables	237,955	29,752	239,099	6,994
Total current assets	16,736,265	658,100	14,549,878	614,815
Asset whose use is limited				
Total assets limited as to use	4,450,315	101,152	5,967,705	50,354
Less amounts to meet current obligations	(803,905)	-	(1,186,827)	-
Total assets limited as to use - noncurrent portion	3,646,410	101,152	4,780,878	50,354
Capital assets	14,738,989	475,323	13,755,193	540,089
Other assets				
Notes and grants receivable - net of current portion	36,917	-	127,639	-
Intangible assets	-	201,000	-	237,000
Unamortized financing cost - net	187,276	327	202,346	887
Other investments	-	-	100,000	84,433
Total other assets	224,193	201,327	429,985	322,320
Total assets	\$ 35,345,857	\$ 1,435,902	\$ 33,515,934	\$ 1,527,578

See accompanying notes to financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS DECEMBER 31, 2005 AND 2004

LIABILITIES AND NET ASSETS

	2005		2004	
	Hospital	Component Units	Hospital	Component Units
Current liabilities				
Current portion of long-term debt	\$ 606,646	\$ 96,989	\$ 595,600	\$ 130,486
Accounts payable	1,173,490	182,683	1,474,134	126,036
Due to primary government	-	-	-	225,959
Accrued liabilities	1,321,296	138,319	1,413,032	204,060
Estimated amounts due third-party payors	1,292,433	-	853,933	-
Total current liabilities	4,393,865	417,991	4,336,699	686,541
Compensated absences	1,005,364	11,242	1,008,519	17,356
Long-term debt, net of current portion	14,099,966	182,986	14,706,612	279,724
Total liabilities	19,499,195	612,219	20,051,830	983,621
Net assets				
Invested in capital assets - net of related debt	2,186,558	285,257	766,277	343,304
Restricted:				
Expendable for capital improvements and other purposes	869,947	89,942	847,647	39,144
Nonexpendable permanent endowments	-	11,210	-	11,210
Unrestricted	12,790,157	437,274	11,850,180	150,299
Total net assets	15,846,662	823,683	13,464,104	543,957
Total liabilities and net assets	\$ 35,345,857	\$ 1,435,902	\$ 33,515,934	\$ 1,527,578

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		2004	
	Hospital	Component Units	Hospital	Component Units
Operating revenue				
Net patient service revenue	\$ 40,309,769	\$ 3,440,151	\$ 38,233,222	\$ 3,382,329
Other operating revenue	318,090	84,188	331,829	147,712
Total operating revenue	40,627,859	3,524,339	38,565,051	3,530,041
Operating expenses				
Salaries and wages	15,105,318	2,744,835	14,558,493	2,788,985
Employee benefits	5,227,635	474,750	4,969,735	510,066
Supplies	5,631,900	116,867	5,186,419	115,667
Purchased services	4,957,507	611,054	4,415,314	591,673
Physician fees	1,369,292	286,000	2,111,324	286,000
Depreciation and amortization	1,741,526	120,905	1,863,281	173,344
Professional fees	137,861	-	444,245	-
Utilities	835,806	111,946	782,535	108,941
Insurance	417,524	41,052	542,086	57,290
Other	342,000	762,988	308,238	633,075
Total operating expenses	35,766,369	5,270,397	35,181,670	5,265,041
Income (loss) from operations	4,861,490	(1,746,058)	3,383,381	(1,735,000)
Nonoperating gains (losses)				
Investment income	335,536	2,404	89,958	1,186
Interest earnings on restricted assets	22,299	-	8,775	-
Interest expense	(853,643)	(25,017)	(816,818)	(35,124)
Gain on disposal of assets	(1,675)	-	678,065	-
Other nonoperating gains	123,551	(56,603)	295,898	15,399
Total nonoperating gains (losses)	(373,932)	(79,216)	255,878	(18,539)
Excess of revenue over (under) expenses	4,487,558	(1,825,274)	3,639,259	(1,753,539)
Transfer from (to) affiliates	(2,105,000)	2,105,000	(1,690,000)	1,690,000
Change in net assets	2,382,558	279,726	1,949,259	(63,539)
Net assets - beginning of year	13,464,104	543,957	11,514,845	607,496
Net assets - end of year	\$ 15,846,662	\$ 823,683	\$ 13,464,104	\$ 543,957

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		2004	
	Hospital	Component Units	Hospital	Component Units
Cash flows from operating and nonoperating activities				
Cash received from patients and third-party payors	\$ 40,672,179	\$ 3,463,505	\$ 39,564,390	\$ 3,667,800
Cash payments to suppliers for services and goods	(13,832,901)	(1,882,611)	(13,729,155)	(1,833,599)
Cash payments to employees for services	(20,427,844)	(3,514,156)	(19,127,673)	(3,476,009)
Other operating revenue	318,090	61,430	380,227	149,650
Net cash from operating and nonoperating activities	6,729,524	(1,871,832)	7,087,789	(1,492,158)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(2,725,322)	(19,578)	(2,503,817)	-
Principal payments on bonds	(315,000)	-	(467,631)	(120,126)
Interest paid on long-term debt - net of capitalized interest	(853,643)	(25,017)	(811,697)	(35,124)
Issuance of long-term debt	-	-	3,905,000	-
Bond issuance costs	-	-	(104,610)	-
Principal payments on capital leases	(280,600)	(130,235)	(300,292)	-
Proceeds from sale of capital assets	-	-	1,390,541	222
Net cash from capital and related financing activities	(4,174,565)	(174,830)	1,107,494	(155,028)
Cash flow from investing activities				
Advances to physicians - net of forgiveness	230,759	-	219,762	-
Income received on investments	357,835	2,404	98,557	1,186
Income from other nonoperating gains	123,551	27,830	295,898	15,399
Transfer to (from) affiliates	(2,105,000)	2,105,000	(1,690,000)	1,690,000
Purchases of investments	(4,471,242)	-	(5,060,790)	-
Proceeds from sale of investments	4,645,166	-	5,883,330	-
Net cash from investing activities	(1,218,931)	2,135,234	(253,243)	1,706,585
Change in cash and cash equivalents	1,336,028	88,572	7,942,040	59,399
Cash and cash equivalents - beginning of year	11,033,899	206,263	3,091,859	146,864
Cash and cash equivalents- end of year	<u>\$ 12,369,927</u>	<u>\$ 294,835</u>	<u>\$ 11,033,899</u>	<u>\$ 206,263</u>
Balance sheet classification of cash and cash equivalents				
Current assets - cash	\$ 10,248,756	\$ 193,683	\$ 7,569,261	\$ 155,909
Assets limited as to use	2,121,171	101,152	3,464,638	50,354
Total	<u>\$ 12,369,927</u>	<u>\$ 294,835</u>	<u>\$ 11,033,899</u>	<u>\$ 206,263</u>

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2005 AND 2004

A reconciliation of income (loss) from operations to net cash from operating and nonoperating activities is as follows:

	2005		2004	
	Hospital	Component Units	Hospital	Component Units
Cash flows from operating and nonoperating activities				
Income (loss) from operations	\$ 4,861,490	\$ (1,746,058)	\$ 3,383,381	\$ (1,735,000)
Adjustments to reconcile income (loss) from operations to net cash from operating and nonoperating activities:				
Depreciation and amortization	1,741,526	120,905	1,863,281	173,344
Provision for bad debt	3,056,165	87,397	3,140,425	120,664
Change in operating assets and liabilities:				
Patient receivables	(3,132,255)	(64,043)	(1,420,206)	164,807
Other receivables	226,267	(22,758)	48,398	1,938
Inventory	(92,444)	-	91,333	-
Prepaid expenses and other	24,810	(6,108)	(228,758)	(33,375)
Accounts payable	(299,644)	(169,312)	(453,868)	(215,940)
Accrued expenses and compensated absences	(94,891)	(71,855)	400,555	31,404
Estimated amounts due third-party payors	438,500	-	263,248	-
Net cash from operating and nonoperating activities	<u>\$ 6,729,524</u>	<u>\$ (1,871,832)</u>	<u>\$ 7,087,789</u>	<u>\$ (1,492,158)</u>

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING BALANCE SHEET DECEMBER 31, 2005

	ASSETS				
	HDH Foundation	PSC	PFW	HJTDH Foundation	Component Units Total
Current assets					
Cash and cash equivalents	\$ 439	\$ 58,196	\$ 33,908	\$ 101,140	\$ 193,683
Patient accounts receivable - net	-	168,613	101,705	-	270,318
Prepaid expenses and other current assets	-	85,489	78,858	-	164,347
Other receivables	-	29,752	-	-	29,752
Total current assets	439	342,050	214,471	101,140	658,100
Assets limited as to use					
Total assets limited as to use	-	-	-	101,152	101,152
Less amounts to meet current obligations	-	-	-	-	-
Total current assets limited as to use	-	-	-	101,152	101,152
Capital assets - net	-	455,423	19,900	-	475,323
Other assets					
Intangible assets	-	-	201,000	-	201,000
Unamortized financing costs - Net	-	-	327	-	327
Other investments	-	-	-	-	-
Total other assets	-	-	201,327	-	201,327
Total assets	<u>\$ 439</u>	<u>\$ 797,473</u>	<u>\$ 435,698</u>	<u>\$ 202,292</u>	<u>\$ 1,435,902</u>

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING BALANCE SHEET DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

	HDH Foundation	PSC	PFW	HJT DH Foundation	Component Units Total
Current liabilities					
Current portion of long-term debt	\$ -	\$ 7,080	\$ 89,909	\$ -	\$ 96,989
Accounts payable	-	152,726	29,957	-	182,683
Accrued liabilities	-	61,136	77,183	-	138,319
Total current liabilities	-	220,942	197,049	-	417,991
Compensated absences	-	7,700	3,542	-	11,242
Long-term debt - net of current portion	-	182,986	-	-	182,986
Total liabilities	-	411,628	200,591	-	612,219
Net assets					
Invested in capital assets - Net of related debt	-	265,357	19,900	-	285,257
Restricted:					
Expendable for capital improvements and other purposes	-	-	-	89,942	89,942
Nonexpendable permanent endowments	-	-	-	11,210	11,210
Unrestricted	439	120,488	215,207	101,140	437,274
Total net assets	439	385,845	235,107	202,292	823,683
Total liabilities and net assets	\$ 439	\$ 797,473	\$ 435,698	\$ 202,292	\$ 1,435,902

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING BALANCE SHEET DECEMBER 31, 2004

ASSETS					
	HDH Foundation	PSC	PFW	HJTDH Foundation	Component Units Total
Current assets					
Cash and cash equivalents	\$ 551	\$ 39,188	\$ 22,977	\$ 93,193	\$ 155,909
Patient accounts receivable - net	-	186,294	107,378	-	293,672
Prepaid expenses and other current assets	-	78,321	79,919	-	158,240
Other receivables	-	1,301	268	5,425	6,994
Total current assets	551	305,104	210,542	98,618	614,815
Assets limited as to use					
Total assets limited as to use	-	-	-	50,354	50,354
Less amounts to meet current obligations	-	-	-	-	-
Total current assets limited as to use	-	-	-	50,354	50,354
Capital assets - net	-	529,510	10,579	-	540,089
Other assets					
Intangible assets	-	-	237,000	-	237,000
Unamortized financing costs - net	-	-	887	-	887
Other investments	84,433	-	-	-	84,433
Total other assets	84,433	-	237,887	-	322,320
Total assets	<u>\$ 84,984</u>	<u>\$ 834,614</u>	<u>\$ 459,008</u>	<u>\$ 148,972</u>	<u>\$ 1,527,578</u>

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING BALANCE SHEET DECEMBER 31, 2004

LIABILITIES AND NET ASSETS

	HDH Foundation	PSC	PFW	HJTDH Foundation	Component Units Total
Current liabilities					
Current portion of long-term debt	\$ -	\$ 6,710	\$ 123,776	\$ -	\$ 130,486
Accounts payable	-	120,915	5,121	-	126,036
Intercompany payable	-	225,959	-	-	225,959
Accrued liabilities	-	122,478	81,582	-	204,060
Total current liabilities	-	476,062	210,479	-	686,541
Compensated absences	-	10,838	6,518	-	17,356
Long-term debt - net of current portion	-	190,075	89,649	-	279,724
Total liabilities	-	676,975	306,646	-	983,621
Net assets					
Invested in capital assets - net of related debt	-	332,725	10,579	-	343,304
Restricted:					
Expendable for capital improvements and other purposes	-	-	-	39,144	39,144
Nonexpendable permanent endowments	-	-	-	11,210	11,210
Unrestricted	84,984	(175,086)	141,783	98,618	150,299
Total net assets	84,984	157,639	152,362	148,972	543,957
Total liabilities and net assets	\$ 84,984	\$ 834,614	\$ 459,008	\$ 148,972	\$ 1,527,578

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005

	HDH Foundation	PSC	PFW	HJTDH Foundation	Component Units Total
Operating revenue					
Net patient service revenue	\$ -	\$ 2,074,548	\$ 1,365,603	\$ -	\$ 3,440,151
Other operating revenue	-	998	96	83,094	84,188
Total operating revenue	-	2,075,546	1,365,699	83,094	3,524,339
Operating expenses					
Salaries and wages	-	1,557,168	1,187,667	-	2,744,835
Employee benefits	-	280,555	194,195	-	474,750
Supplies	-	63,884	52,983	-	116,867
Purchased services	-	587,909	23,145	-	611,054
Physician fees	-	286,000	-	-	286,000
Depreciation and amortization	-	79,758	41,147	-	120,905
Utilities	-	75,959	35,987	-	111,946
Insurance	-	13,194	27,858	-	41,052
Other	122	380,043	350,655	32,168	762,988
Total operating expenses	122	3,324,470	1,913,637	32,168	5,270,397
Income (loss) from operations	(122)	(1,248,924)	(547,938)	50,926	(1,746,058)
Nonoperating gains (losses)					
Investment income	10	-	-	2,394	2,404
Interest expense	-	(25,017)	-	-	(25,017)
Other nonoperating gains	(84,433)	27,147	683	-	(56,603)
Total nonoperating gains (losses)	(84,423)	2,130	683	2,394	(79,216)
Excess of revenue over (under) expenses	(84,545)	(1,246,794)	(547,255)	53,320	(1,825,274)
Transfer from affiliates	-	1,475,000	630,000	-	2,105,000
Change in net assets	(84,545)	228,206	82,745	53,320	279,726
Net assets - beginning of year	84,984	157,639	152,362	148,972	543,957
Net assets - end of year	\$ 439	\$ 385,845	\$ 235,107	\$ 202,292	\$ 823,683

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMPONENT UNITS – COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2004

	HDH Foundation	PSC	PFW	HJTDH Foundation	Component Units Total
Operating revenue					
Net patient service revenue	\$ -	\$ 1,992,366	\$ 1,389,963	\$ -	\$ 3,382,329
Other operating revenue	-	1,513	554	145,645	147,712
Total operating revenue	-	1,993,879	1,390,517	145,645	3,530,041
Operating expenses					
Salaries and wages	-	1,640,000	1,148,985	-	2,788,988
Employee benefits	-	341,383	168,683	-	510,066
Supplies	-	70,090	45,577	-	115,667
Purchased services	-	583,643	8,030	-	591,673
Physician fees	-	286,000	-	-	286,000
Depreciation and amortization	-	130,710	42,634	-	173,344
Utilities	-	76,589	32,352	-	108,941
Insurance	-	24,006	33,284	-	57,290
Other	92	302,906	271,056	59,021	633,075
Total operating expenses	92	3,455,327	1,750,601	59,021	5,265,041
Income (loss) from operations	(92)	(1,461,448)	(360,084)	86,624	(1,735,000)
Nonoperating gains (losses)					
Investment income	-	-	-	1,186	1,186
Interest expense	-	(12,720)	(22,404)	-	(35,124)
Other nonoperating gains	10	14,818	571	-	15,399
Total nonoperating gains (losses)	10	2,098	(21,833)	1,186	(18,539)
Excess of revenue over (under) expenses	(82)	(1,459,350)	(381,917)	87,810	(1,753,539)
Transfer from affiliates	-	1,225,000	465,000	-	1,690,000
Change in net assets	(82)	(234,350)	83,083	87,810	(63,539)
Net assets - beginning of year	85,066	391,989	69,279	61,162	607,496
Net assets - end of year	<u>\$ 84,984</u>	<u>\$ 157,639</u>	<u>\$ 152,362</u>	<u>\$ 148,972</u>	<u>\$ 543,957</u>

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

The accompanying combined financial statements include the accounts of Highland County Joint Township Hospital District (the Hospital) and its four subsidiaries, Highland District Hospital Foundation, Inc., Highland District Hospital Professional Services Corporation, Highland Joint Township District Hospital Foundation, and PFW Professional Service Corporation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

The Hospital is an acute care facility located in Hillsboro, Ohio, serving patients primarily in Highland County. The Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio revised code. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township Hospital District Board of Trustees who appoints the Hospital Board of Governors which is composed of one member from each township and three at-large members.

During 1999, the Hospital formed the Highland District Hospital Foundation, Inc. (HDH Foundation) as a not-for-profit corporation under Internal Revenue Code Section 501 (c) (3). The Foundation is controlled by the Hospital's Board of Governors.

Also during 1999, the Hospital formed the Highland District Hospital Professional Services Corporation (PSC) as a not-for-profit corporation under Internal Revenue Code Section 501 (c) (3) to further the charitable purposes of the HDH Foundation and the Hospital.

During 2001, the Hospital formed the Highland Joint Township District Hospital Foundation (HJTDH Foundation) as a not-for-profit corporation under Internal Revenue Code Section 501 (c) (3) to raise and hold contributions for the benefit of the Hospital.

Also during 2001, the Hospital formed the PFW Professional Service Corporation (PFW) as a not-for-profit corporation under Internal Revenue Code Section 501 (c) (3) to further the charitable purposes of the HDH foundation and the Hospital.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Hospital now follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provide a comprehensive one-line look at the Organization’s financial activities. There was no impact to the net assets of the Organization in adopting GASB Statement No. 34. The Organization also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments purchased with initial maturities of three months or less.

Inventories

Inventories, consisting primarily of medical supplies and drugs, are valued at the lower of cost, determined by the first-in, first-out method, or market.

Assets Whose Use is Limited

Assets whose use is limited consist of invested funds designated by the Hospital’s Board of Governors for employee benefits, the replacement, improvement, and expansion of the Hospital’s facilities, and invested funds restricted in connection with the Hospital’s revenue bonds. Amounts required to meet current obligations are recognized as current assets. Assets limited as to use also include funds restricted by contributors for capital improvements and other purposes, as well as the principal and interest on a permanent endowment, of which the interest is restricted for operations and capital improvements.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the related lease term. Such amortization is included in depreciation and amortization in the financial statements. Costs of the maintenance and repairs are charged to expense when incurred.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Unamortized Financing Costs

Costs incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding using the effective interest method. Amortization expense totaled \$15,070 and \$9,499 in 2005 and 2004, respectively. In 2001, PFW incurred costs in obtaining a commercial loan to finance the purchase of a physician practice. These costs are being amortized over the period the obligations are outstanding using the straight-line method. Amortization expense totaled \$560 in 2005 and 2004.

Intangible Assets

Intangible assets are related to the acquisitions of PSC in 1999 and PFW in 2001. These assets are being amortized on a straight-line basis. Amortization expense related to the acquisition of PFW totaled \$36,000 in 2005 and 2004.

Compensated Absences

Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

Restricted Resources

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Net assets

Net assets of the Organization are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Income from Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses, other than financing costs. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care

The Hospital provides care to patients who meet certain criteria under the Hospital's charity 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, they are not reported as revenue. Charges foregone for charity care totaled \$996,812 and \$954,387 for 2005 and 2004, respectively.

Pension Plan

Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs accrued based on contribution rates determined by OPERS.

Federal Income Tax

As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code.

Beneficial Interest in Perpetual Trust

In 2000, the Hospital was notified it had obtained a 50% interest in a perpetual trust. Under the perpetual trust agreement, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. Annual distributions from the trust to the Hospital are reported as investment income. The assets of the trust are not recorded in the Hospital's financial statements.

Reclassifications

Certain amounts have been reclassified in 2004 to conform to the current year presentation.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

2. CHANGE IN PRESENTATION

The Organization changed the method by which it is presenting its component units during 2004 from a "blended" presentation to a "discrete" presentation for all disclosures within the 2004 financial statements. The change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, Issued by the Governmental Accounting Standards Board.

3. DEPOSITS AND INVESTMENTS

Cash deposits, assets whose use is limited, and investments of the Organization are composed of the following:

	Hospital			
	2005		2004	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	\$ 12,369,927	\$ 12,369,927	\$ 11,033,899	\$ 11,033,899
Stocks	92,608	13,250	92,000	13,250
U. S. government obligations	2,236,536	2,235,245	2,411,067	2,414,842
Total	<u>\$ 14,699,071</u>	<u>\$ 14,618,422</u>	<u>\$ 13,536,966</u>	<u>\$ 13,461,991</u>
	2005		2004	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 10,248,756	\$ 10,248,756	\$ 7,569,261	\$ 7,569,261
Assets limited as to use	4,450,315	4,369,666	5,967,705	5,892,730
Total	<u>\$ 14,699,071</u>	<u>\$ 14,618,422</u>	<u>\$ 13,536,966</u>	<u>\$ 13,461,991</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

	Component Units			
	2005		2004	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	\$ 294,835	\$ 294,835	\$ 206,263	\$ 206,263
Stocks	-	-	-	-
U. S. government obligations	-	-	-	-
Total	<u>\$ 294,835</u>	<u>\$ 294,835</u>	<u>\$ 206,263</u>	<u>\$ 206,263</u>

	Component Units			
	2005		2004	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 193,683	\$ 193,683	\$ 155,909	\$ 155,909
Assets limited as to use	101,152	101,152	50,354	50,354
Total	<u>\$ 294,835</u>	<u>\$ 294,835</u>	<u>\$ 206,263</u>	<u>\$ 206,263</u>

At December 31, 2005, the bank balance of the Organization's demand deposits and money market accounts totaled \$12,741,933. Of this balance, \$386,079 was covered by federal depository insurance and \$12,355,854 was collateralized with securities held in pooled collateral accounts at the pledging banks.

Investments in U.S. government obligations were uninsured and held by the Organization's agent in the Organization's name. Investments in common stock were held by the Organization in the Organization's name.

The Hospital had the following investments and maturities, all of which are held in the Hospital's name by a custodial bank that is an agent of the Hospital:

	Carrying Amount	Maturities	
		< than 1 year	1-5 years
December 31, 2005:			
U.S. Government obligations	<u>\$ 2,236,536</u>	<u>\$ 1,834,015</u>	<u>\$ 402,521</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Assets Limited as to Use

The Composition of assets whose use is limited is set forth below:

	Hospital		Component Units	
	2005	2004	2005	2004
Restricted by contributors for capital improvements and other purposes	\$ 869,946	\$ 847,649	\$ 89,942	\$ 39,144
Principal of permanent endowments	-	-	11,210	11,210
Designated by board for capital improvements and employee benefits	1,426,188	1,391,541	-	-
Held by trustee, under Bond Indenture agreements	2,154,181	3,728,515	-	-
Total	<u>\$ 4,450,315</u>	<u>\$ 5,967,705</u>	<u>\$ 101,152</u>	<u>\$ 50,354</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	Hospital	
	2005	2004
Total patient accounts receivable	\$ 8,481,002	\$ 8,479,326
Less allowance for:		
Uncollectible accounts	(1,167,739)	(1,277,051)
Contractual adjustments	(3,048,955)	(3,014,057)
Net patient accounts receivable	<u>\$ 4,264,308</u>	<u>\$ 4,188,218</u>

	Components Units	
	2005	2004
Total patient accounts receivable	\$ 531,895	\$ 573,821
Less allowance for:		
Uncollectible accounts	(31,547)	(51,684)
Contractual adjustments	(230,030)	(228,465)
Net patient accounts receivable	<u>\$ 270,318</u>	<u>\$ 293,672</u>

4. NOTES AND GRANTS RECEIVABLE

Notes and grants receivable represent advances to physicians under various cash flow support and advance arrangements. These advances are to be repaid in varying monthly installments including interest at the prime lending rate and are unsecured. A majority of the physician notes and grants receivable are forgiven over time under the terms as specified in the physician advance agreement. A summary of these amounts outstanding is as follows:

	Hospital	
	2005	2004
Notes and grants receivable	\$ 146,953	\$ 377,712
Less current portion	(110,036)	(250,073)
Long-term portion	<u>\$ 36,917</u>	<u>\$ 127,639</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	2004	Hospital		2005
		Additions	Retirements	
Land	15,437	\$ -	\$ -	15,437
Land improvements	645,446	7,825	-	653,271
Buildings and improvements	10,273,775	53,866	-	10,327,641
Equipment	14,276,412	573,684	(72,857)	14,777,239
Equipment - Capital leases	1,514,248	-	-	1,514,248
Construction in progress	2,212,334	2,089,947	-	4,302,281
Total capital assets	<u>28,937,652</u>	<u>2,725,322</u>	<u>(72,857)</u>	<u>31,590,117</u>
Less accumulated depreciation				
Land	-	-	-	-
Land improvements	437,351	57,893	-	495,244
Buildings and improvements	4,751,869	496,619	-	5,248,488
Equipment	8,982,573	840,882	(72,857)	9,750,598
Equipment - Capital leases	1,010,666	346,132	-	1,356,798
Construction in progress	-	-	-	-
Total accumulated depreciation	<u>\$ 15,182,459</u>	<u>\$ 1,741,526</u>	<u>\$ (72,857)</u>	<u>\$ 16,851,128</u>
Capital assets, net	<u>\$ 13,755,193</u>	<u>\$ 983,796</u>	<u>\$ -</u>	<u>\$ 14,738,989</u>

	2004	Component Units		2005
		Additions	Retirement	
Land improvements	\$ 397,861	\$ 10,917	\$ -	\$ 408,778
Buildings	220,014	-	-	220,014
Equipment	339,540	8,661	(1,713)	346,488
Total capital assets	<u>957,415</u>	<u>19,578</u>	<u>(1,713)</u>	<u>975,280</u>
Less accumulated depreciation				
Land improvements	218,653	39,625	-	258,278
Buildings	27,136	8,800	-	35,936
Equipment	171,537	72,480	(38,274)	205,743
Total accumulated depreciation	<u>417,326</u>	<u>120,905</u>	<u>(38,274)</u>	<u>499,957</u>
Capital assets, net	<u>\$ 540,089</u>	<u>\$ (101,327)</u>	<u>\$ 36,561</u>	<u>\$ 475,323</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Capital asset activity for the year ended December 31, 2004 was as follows:

	Hospital			2004
	2003	Additions	Retirements	
Land	\$ 15,437	\$ -	\$ -	15,437
Land improvements	629,844	15,602	-	645,446
Buildings and improvements	10,631,873	45,671	(403,769)	10,273,775
Equipment	13,783,927	623,584	(131,099)	14,276,412
Equipment - capital leases	1,654,778	-	(140,530)	1,514,248
Construction in progress	285,790	2,503,817	(577,273)	2,212,334
Total capital assets	<u>27,001,649</u>	<u>3,188,674</u>	<u>(1,252,671)</u>	<u>28,937,652</u>
Less accumulated depreciation		-		
Land	-	-	-	-
Land improvements	370,210	67,141	-	437,351
Buildings and improvements	4,315,425	537,386	(100,942)	4,751,869
Equipment	8,208,469	912,623	(138,519)	8,982,573
Equipment - capital leases	805,064	346,131	(140,529)	1,010,666
Construction in progress	-	-	-	-
Total accumulated depreciation	<u>13,699,168</u>	<u>1,863,281</u>	<u>(379,990)</u>	<u>15,182,459</u>
Capital assets, net	<u>\$ 13,302,481</u>	<u>\$ 1,325,393</u>	<u>\$ (872,681)</u>	<u>\$ 13,755,193</u>

	Component Units			2004
	2003	Additions	Retirement	
Land improvements	\$ 397,861	\$ -	\$ -	\$ 397,861
Buildings	220,014	-	-	220,014
Equipment	343,064	-	(3,524)	339,540
Total capital assets	<u>960,939</u>	<u>-</u>	<u>(3,524)</u>	<u>957,415</u>
Less accumulated depreciation				
Land improvements	174,366	44,287	-	218,653
Buildings	18,335	8,801	-	27,136
Equipment	126,143	48,696	(3,302)	171,537
Total accumulated depreciation	<u>318,844</u>	<u>101,784</u>	<u>(3,302)</u>	<u>417,326</u>
Capital assets, net	<u>\$ 642,095</u>	<u>\$ (101,784)</u>	<u>\$ (222)</u>	<u>\$ 540,089</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 59% of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

Medicare

Inpatient, acute-care 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. Reimbursement for all outpatient services are based on the prospectively determined ambulatory payment classification system. Effective December 2005 the Hospital was designated as a Critical Access Hospital. As a result, Medicare inpatient and outpatient services are reimbursed at the approximate cost plus 1% of providing those services. Medicare cost reports are final settled through 2003.

Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements.

The Hospital also has 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

7. LONG-TERM DEBT

In 1999, revenue bonds of \$11,500,000 were issued to finance the construction of the Hospital's Health Care Center, an expanded outpatient facility substantially completed in October 1999. Such bonds bear interest at 6.75%, with annual principal payments due through December 1, 2029, and are collateralized by all future revenues of the Hospital.

The Hospital is bound by the terms of the bond and trustee agreements to various operational and financial covenants, including maintaining a minimum debt service ratio of 1.2 to 1.

On January 26, 2001, the Hospital obtained \$700,000 of Hospital Facilities Revenue Bonds, Series 2001, to finance the construction of the Edith Brown Pavilion. The bonds are payable in monthly installments of \$13,559, which includes interest at 6.08%, beginning February 26, 2001. The bonds were paid off with proceeds from the 2004 bonds.

On November 29, 2001, PSC obtained a \$215,000 mortgage loan to purchase a medical office building and related property. The mortgage is payable in monthly installments of \$1,583, which includes interest at 6.25%, beginning December 29, 2001, and matures in November 2021. The mortgage is secured by the medical office building and property.

On August 13, 2001, PFW obtained a \$560,000 commercial loan to finance the purchase of a physician practice. The loan is payable in monthly installments of \$11,355, which includes interest at 8.0%, beginning September 13, 2001, and matures in August 2006. The loan is secured by all business assets of PFW. PFW is bound by the terms of the loan agreements to various operational and financial covenants, including maintaining a minimum debt service ratio of 1.25 to 1.

On August 15, 2004 the Organization obtained \$3,905,000 of Hospital Facilities Revenue and Refunding Bonds, Series 2004, to finance the recladding of the Hospital facilities and to retire the 2001 Series bonds. The bonds are payable in varying annual installments beginning August 1, 2005. The bonds shall mature on August 1, 2024. The interest rate on the variable rate debt was 3.58 % at December 31, 2005. The debt is collateralized by a letter of credit at Fifth Third Bank with a maximum credit amount of \$3,953,144 at December 31, 2005.

The variable rate 2004 Bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be "put" back to the Bond Trustee, who would draw down on the letter of credit to pay down the 2004 Bonds. The reimbursement Agreement between the letter-of-credit bank and the Hospital provides for the Hospital to reimburse the letter-of-credit bank for any remarketing draws within 367 days. The letter of credit expires on August 15, 2007.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

The Hospital leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 4.99 % to 5.82 % through January 2007, and are collateralized by the equipment leased. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in deprecation expense for 2005 and 2004.

In 2005, the Organization paid interest of approximately \$865,917, \$54,005 of which was capitalized. The Organization paid interest of approximately \$863,300 in 2004, of which \$11,300 was capitalized.

Long-term debt activity for the year ended December 31, 2005 was as follows:

	Hospital				
	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	\$ 597,212	\$ -	\$ (280,600)	\$ 316,612	\$ 291,646
Bonds and loans payable	14,705,000	-	(315,000)	\$ 14,390,000	315,000
Total leases, bonds, and loans payable	<u>\$ 15,302,212</u>	<u>\$ -</u>	<u>\$ (595,600)</u>	<u>\$ 14,706,612</u>	<u>\$ 606,646</u>
	Component Units				
	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Bonds and loans payable	<u>\$ 410,210</u>	<u>\$ -</u>	<u>\$ (130,235)</u>	<u>\$ 279,975</u>	<u>\$ 96,989</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Long-term debt activity for the year ended December 31, 2004 was as follows:

	Hospital				
	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	\$ 897,504	\$ -	\$ (300,292)	\$ 597,212	\$ 280,600
Bonds and loans payable	11,267,631	3,905,000	(467,631)	14,705,000	315,000
Total leases, bonds, and loans payable	<u>\$ 12,165,135</u>	<u>\$ 3,905,000</u>	<u>\$ (767,923)</u>	<u>\$ 15,302,212</u>	<u>\$ 595,600</u>
	Component Units				
	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Bonds and loans payable	<u>\$ 530,336</u>	<u>\$ -</u>	<u>\$ (120,126)</u>	<u>\$ 410,210</u>	<u>\$ 130,486</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

The following is a schedule of bond and loan principal and interest and future minimum lease payments as of December 31, 2005:

	Hospital		
	Bonds and Loans Payable	Bonds and Loans Interest	Lease Payable
2006	\$ 315,000	\$ 806,371	\$ 300,835
2007	370,000	791,557	25,069
2008	375,000	772,623	-
2009	380,000	753,589	-
2010	410,000	734,721	-
2011-2015	2,410,000	3,336,556	-
2016-2020	3,160,000	2,626,564	-
2021-2025	3,895,000	1,683,086	-
Thereafter	3,075,000	521,016	-
	<u>\$ 14,390,000</u>	<u>\$ 12,026,083</u>	<u>325,904</u>
Total payments			<u>(9,292)</u>
			<u>\$ 316,612</u>

	Component Units	
	Bonds and Loans Payable	Bonds and Loans Interest
2006	\$ 96,989	\$ 111,522
2007	7,621	18,993
2008	8,086	18,993
2009	8,646	18,993
2010	9,210	18,993
2011-2015	55,855	94,967
2016-2020	76,686	94,967
2021-2025	16,882	17,448
	<u>\$ 279,975</u>	<u>\$ 394,876</u>
Total payments		

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

The carrying value of equipment under capital lease obligations is as follows:

	Hospital	
	2005	2004
Cost of equipment under capital lease	\$ 1,514,248	\$ 1,514,248
Lease accumulated amortization	1,356,797	1,010,666
Net carrying amount	<u>\$ 157,451</u>	<u>\$ 503,582</u>

8. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2005 and 2004 are as follows:

	Hospital	
	2005	2004
Payroll and related amounts	\$ 611,419	\$ 572,493
Workers' compensation premiums	303,651	324,126
Professional liability claims	-	120,000
Pension	326,299	320,261
Interest	79,927	76,152
Total accrued liabilities	<u>\$ 1,321,296</u>	<u>\$ 1,413,032</u>

	Component Units	
	2005	2004
Payroll and related amounts	\$ 130,482	\$ 110,709
Workers' compensation premiums	-	1,089
Pension	7,837	92,262
Total accrued liabilities	<u>\$ 138,319</u>	<u>\$ 204,060</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>Hospital</u>	
	<u>2005</u>	<u>2004</u>
Revenue:		
Inpatient services:		
Routine services	\$ 6,201,308	\$ 6,351,513
Ancillary services	15,495,978	14,158,155
Outpatient services	48,178,285	46,883,945
Total patient revenue	69,875,571	67,393,613
Revenue deductions:		
Provision for contractual allowances	25,512,825	25,065,579
Provision for bad debt allowances	3,056,165	3,140,425
Provision for charity care	996,812	954,387
Total revenue deductions	<u>29,565,802</u>	<u>29,160,391</u>
Total net patient service revenue	<u>\$ 40,309,769</u>	<u>\$ 38,233,222</u>
	<u>Component Units</u>	
	<u>2005</u>	<u>2004</u>
Revenue - outpatient services	\$ 5,334,085	\$ 5,179,674
Revenue deductions:		
Provision for contractual allowances	1,806,537	1,676,681
Provision for bad debt allowances	87,397	120,664
Total revenue deductions	<u>1,893,934</u>	<u>1,797,345</u>
Total net patient service revenue	<u>\$ 3,440,151</u>	<u>\$ 3,382,329</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

10. DEFINED BENEFIT PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System of Ohio, (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6701 or (800) 222-PERS (7377).

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2005	\$ 2,014,180
2004	\$ 1,936,226
2003	\$ 1,800,706

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2005 and 2004 employer contribution rates of 13.55% used to fund healthcare was 4.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2004 was 8%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287.

Hospital contributions made to fund post-employment benefits approximated \$579,000 and \$572,000 for 2005 and 2004, respectively.

The actuarial value of OPERS net assets at December 31, 2004 were \$10.8 million. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$29.5 million and \$18.7 million, respectively.

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

11. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Organization has purchased commercial insurance for malpractice, general liability, and employee medical claims.

The Organization is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Organization bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year. In addition, the Organization has an umbrella policy with an additional \$5,000,000 of coverage.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Organization is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Organization's cost for such claims for the year, and it has been charged to operations as a current expense.

The Organization is exposed to various risks of loss related to property and general losses, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance and/or participated in state-sponsored plans for coverage of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

ADDITIONAL FINANCIAL INFORMATION



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

To the Joint Township Hospital District Board
of Trustees and Hospital Board of Governors
Highland County Joint Township Hospital District
and Subsidiaries
Hillsboro, Ohio

We have audited the financial statements of Highland County Joint Township Hospital District as of December 31, 2005. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the accompanying schedules on pages 34-42 is presented for the purpose of additional analysis of the financial statements rather than to present the financial position and results of operations of the individual components and is not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blue & Co., LLC

March 17, 2006

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET DECEMBER 31, 2005

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	\$ 10,248,756	\$ 439	\$ 58,196	\$ 33,908	\$ 101,140	\$ -	\$ 10,442,439
Assets limited as to use - current portion	803,905	-	-	-	-	-	803,905
Patient accounts receivable - Net	4,264,308	-	168,613	101,705	-	-	4,534,626
Due from component unit	-	-	-	-	-	-	-
Inventories	447,389	-	-	-	-	-	447,389
Prepaid expenses and other current assets	614,777	-	85,489	78,858	-	-	779,124
Accrued interest receivable	9,139	-	-	-	-	-	9,139
Notes and grants receivable - current portion	110,036	-	-	-	-	-	110,036
Other receivables	237,955	-	29,752	-	-	(34,066)	233,641
Total current assets	16,736,265	439	342,050	214,471	101,140	(34,066)	17,360,299
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	869,946	-	-	-	89,942	-	959,888
Principal of permanent endowments	-	-	-	-	11,210	-	11,210
Designated by Board for capital improvements and employee benefits	1,426,188	-	-	-	-	-	1,426,188
Held by trustee under bond indenture agreements	2,154,181	-	-	-	-	-	2,154,181
Total assets limited as to use	4,450,315	-	-	-	101,152	-	4,551,467
Less amounts to meet current obligations	(803,905)	-	-	-	-	-	(803,905)
Total assets limited as to use - Noncurrent portion	3,646,410	-	-	-	101,152	-	3,747,562
Capital assets - net	14,738,989	-	455,423	19,900	-	-	15,214,312
Other assets							
Notes and grants receivable - net of current portion	36,917	-	-	-	-	-	36,917
Intangible assets	-	-	-	201,000	-	-	201,000
Unamortized financing costs - net	187,276	-	-	327	-	-	187,603
Total other assets	224,193	-	-	201,327	-	-	425,520
Total assets	\$ 35,345,857	\$ 439	\$ 797,473	\$ 435,698	\$ 202,292	\$ (34,066)	\$ 36,747,693

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	\$ 606,646	\$ -	\$ 7,080	\$ 89,909	\$ -	\$ -	\$ 703,635
Accounts payable	1,173,490	-	152,726	29,957	-	(34,066)	1,322,107
Accrued liabilities	1,321,296	-	61,136	77,183	-	-	1,459,615
Estimated amounts due to third-party payors	1,292,433	-	-	-	-	-	1,292,433
Total current liabilities	4,393,865	-	220,942	197,049	-	(34,066)	4,777,790
Compensated absences	1,005,364	-	7,700	3,542	-	-	1,016,606
Long-term debt - net of current portion	14,099,966	-	182,986	-	-	-	14,282,952
Total liabilities	19,499,195	-	411,628	200,591	-	(34,066)	20,077,348
Net assets							
Invested in capital assets - Net of related debt	2,186,558	-	265,357	19,900	-	-	2,471,815
Restricted:							
Expendable for capital improvements and other purposes	869,947	-	-	-	89,942	-	959,889
Nonexpendable permanent endowments	-	-	-	-	11,210	-	11,210
Unrestricted	12,790,157	439	120,488	215,207	101,140	-	13,227,431
Total net assets	15,846,662	439	385,845	235,107	202,292	-	16,670,345
Total liabilities and net assets	\$ 35,345,857	\$ 439	\$ 797,473	\$ 435,698	\$ 202,292	\$ (34,066)	\$ 36,747,693

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET DECEMBER 31, 2004

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	\$ 7,569,261	\$ 551	\$ 39,188	\$ 22,977	\$ 93,193	\$ -	\$ 7,725,170
Assets limited as to use - current portion	1,186,827	-	-	-	-	-	1,186,827
Patient accounts receivable - Net	4,188,218	-	186,294	107,378	-	-	4,481,890
Due from component unit	226,267	-	-	-	-	(226,267)	-
Inventories	354,945	-	-	-	-	-	354,945
Prepaid expenses and other current assets	530,182	-	78,321	79,919	-	-	688,422
Accrued interest receivable	5,006	-	-	-	-	-	5,006
Notes and grants receivable - current portion	250,073	-	-	-	-	-	250,073
Other receivables	239,099	-	1,301	268	5,425	(5,425)	240,668
Total current assets	14,549,878	551	305,104	210,542	98,618	(231,692)	14,933,001
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	847,649	-	-	-	39,144	-	886,793
Principal of permanent endowments	-	-	-	-	11,210	-	11,210
Designated by Board for capital improvements and employee benefits	1,391,541	-	-	-	-	-	1,391,541
Held by trustee under bond indenture agreements	3,728,515	-	-	-	-	-	3,728,515
Total assets limited as to use	5,967,705	-	-	-	50,354	-	6,018,059
Less amounts to meet current obligations	(1,186,827)	-	-	-	-	-	(1,186,827)
Total assets limited as to use - noncurrent portion	4,780,878	-	-	-	50,354	-	4,831,232
Capital assets - net	13,755,193	-	529,510	10,579	-	-	14,295,282
Other assets							
Notes and grants receivable - net of current portion	127,639	-	-	-	-	-	127,639
Intangible assets	-	-	-	237,000	-	-	237,000
Unamortized financing costs - net	202,346	-	-	887	-	-	203,233
Other investments	100,000	84,433	-	-	-	(184,433)	-
Total other assets	429,985	84,433	-	237,887	-	(184,433)	567,872
Total assets	\$ 33,515,934	\$ 84,984	\$ 834,614	\$ 459,008	\$ 148,972	\$ (416,125)	\$ 34,627,387

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2004

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	\$ 595,600	\$ -	\$ 6,710	\$ 123,776	\$ -	\$ -	\$ 726,086
Accounts payable	1,474,134	-	120,915	5,121	-	-	1,600,170
Due to primary government	-	-	225,959	-	-	(225,959)	-
Accrued liabilities	1,413,032	-	122,478	81,582	-	-	1,617,092
Estimated amounts due to third-party payors	853,933	-	-	-	-	-	853,933
Total current liabilities	4,336,699	-	476,062	210,479	-	(225,959)	4,797,281
Compensated absences	1,008,519	-	10,838	6,518	-	-	1,025,875
Long-term debt - net of current portion	14,706,612	-	190,075	89,649	-	-	14,986,336
Total liabilities	20,051,830	-	676,975	306,646	-	(225,959)	20,809,492
Net assets							
Invested in capital assets - Net of related debt	766,277	-	332,725	10,579	-	-	1,109,581
Restricted:							
Expendable for capital improvements and other purposes	847,647	-	-	-	39,144	-	886,791
Nonexpendable permanent endowments	-	-	-	-	11,210	-	11,210
Unrestricted	11,850,180	84,984	(175,086)	141,783	98,618	(190,166)	11,810,313
Total net assets	13,464,104	84,984	157,639	152,362	148,972	(190,166)	13,817,895
Total liabilities and net assets	<u>\$ 33,515,934</u>	<u>\$ 84,984</u>	<u>\$ 834,614</u>	<u>\$ 459,008</u>	<u>\$ 148,972</u>	<u>\$ (416,125)</u>	<u>\$ 34,627,387</u>

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2005

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	\$ 40,309,769	\$ -	\$ 2,074,548	\$ 1,365,603	\$ -	\$ (617,751)	\$ 43,132,169
Other operating revenue	318,090	-	998	96	83,094	(6,596)	395,682
Total operating revenue	40,627,859	-	2,075,546	1,365,699	83,094	(624,347)	43,527,851
Operating expenses							
Salaries and wages	15,105,318	-	1,557,168	1,187,667	-	-	17,850,153
Employee benefits	5,227,635	-	280,555	194,195	-	-	5,702,385
Supplies	5,631,900	-	63,884	52,983	-	-	5,748,767
Purchased services	4,957,507	-	587,909	23,145	-	(12,931)	5,555,630
Physician fees	1,369,292	-	286,000	-	-	(617,751)	1,037,541
Depreciation	1,741,526	-	79,758	41,147	-	-	1,862,431
Professional fees	137,861	-	-	-	-	-	137,861
Utilities	835,806	-	75,959	35,987	-	-	947,752
Insurance	417,524	-	13,194	27,858	-	-	458,576
Other	342,000	122	380,043	350,655	32,168	(16,567)	1,088,421
Total operating expenses	35,766,369	122	3,324,470	1,913,637	32,168	(647,249)	40,389,517
Income (loss) from operations	4,861,490	(122)	(1,248,924)	(547,938)	50,926	22,902	3,138,334
Nonoperating gains (losses)							
Investment income	335,536	10	-	-	2,394	-	337,940
Interest earnings							
on restricted assets	22,299	-	-	-	-	-	22,299
Interest expense	(853,643)	-	(25,017)	-	-	-	(878,660)
Gain on disposal of assets	(1,675)	-	-	-	-	-	(1,675)
Other nonoperating gains	123,551	(84,433)	27,147	683	-	167,264	234,212
Total nonoperating gains (losses)	(373,932)	(84,423)	2,130	683	2,394	167,264	(285,884)
Excess of revenue over (under) expenses	4,487,558	(84,545)	(1,246,794)	(547,255)	53,320	190,166	2,852,450
Transfer from (to) affiliates	(2,105,000)	-	1,475,000	630,000	-	-	-
Change in net assets	2,382,558	(84,545)	228,206	82,745	53,320	190,166	2,852,450
Net assets - beginning of year	13,464,104	84,984	157,639	152,362	148,972	(190,166)	13,817,895
Net assets - end of year	\$ 15,846,662	\$ 439	\$ 385,845	\$ 235,107	\$ 202,292	\$ -	\$ 16,670,345

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2004

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	\$ 38,233,222	\$ -	\$ 1,992,366	\$ 1,389,963	\$ -	\$ (561,741)	\$ 41,053,810
Other operating revenue	331,829	-	1,513	554	145,645	(22,900)	456,641
Total operating revenues	38,565,051	-	1,993,879	1,390,517	145,645	(584,641)	41,510,451
Operating expenses							
Salaries and wages	14,558,493	-	1,640,000	1,148,985	-	-	17,347,478
Employee benefits	4,969,735	-	341,383	168,683	-	-	5,479,801
Supplies	5,186,419	-	70,090	45,577	-	-	5,302,086
Purchased services	4,415,314	-	583,643	8,030	-	(1,655)	5,005,332
Physician fees	2,111,324	-	286,000	-	-	(561,741)	1,835,583
Depreciation	1,863,281	-	130,710	42,634	-	-	2,036,625
Professional fees	444,245	-	-	-	-	-	444,245
Utilities	782,535	-	76,589	32,352	-	-	891,476
Insurance	542,086	-	24,006	33,284	-	-	599,376
Other	308,238	92	302,906	271,056	59,021	(31,636)	909,677
Total operating expenses	35,181,670	92	3,455,327	1,750,601	59,021	(595,032)	39,851,679
Income (loss) from operations	3,383,381	(92)	(1,461,448)	(360,084)	86,624	10,391	1,658,772
Nonoperating gains (losses)							
Investment income	89,958	-	-	-	1,186	-	91,144
Interest earned on restricted assets	8,775	-	-	-	-	-	8,775
Interest expense	(816,818)	-	(12,720)	(22,404)	-	-	(851,942)
Gain on disposal of assets	678,065	-	-	-	-	-	678,065
Other nonoperating gains	295,898	10	14,818	571	-	(10,391)	300,906
Total nonoperating gains (losses)	255,878	10	2,098	(21,833)	1,186	(10,391)	226,948
Excess of revenue over (under) expenses	3,639,259	(82)	(1,459,350)	(381,917)	87,810	-	1,885,720
Transfer from (to) affiliates	(1,690,000)	-	1,225,000	465,000	-	-	-
Change in net assets	1,949,259	(82)	(234,350)	83,083	87,810	-	1,885,720
Net assets - beginning of year	11,514,845	85,066	391,989	69,279	61,162	(190,166)	11,932,175
Net assets - end of year	\$ 13,464,104	\$ 84,984	\$ 157,639	\$ 152,362	\$ 148,972	\$ (190,166)	\$ 13,817,895

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2005

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Cash flows from operating and nonoperating activities							
Cash received from patients and third-party payors	\$ 40,672,179	-	\$ 2,092,229	\$ 1,371,276	\$ -	-	\$ 44,135,684
Cash payments to suppliers for services and goods	(13,832,901)	(122)	(1,398,330)	(451,991)	(32,168)	-	(15,715,512)
Cash payments to employees for services	(20,427,844)	-	(2,124,921)	(1,389,235)	-	-	(23,942,000)
Other operating revenue	318,090	-	(27,453)	364	88,519	-	379,520
Net cash from operating and nonoperating activities	<u>6,729,524</u>	<u>(122)</u>	<u>(1,458,475)</u>	<u>(469,586)</u>	<u>56,351</u>	<u>-</u>	<u>4,857,692</u>
Cash flows from capital and related financing activities							
Acquisition and construction of capital assets	(2,725,322)	-	(5,670)	(13,908)	-	-	(2,744,900)
Principal payments on bonds	(315,000)	-	-	-	-	-	(315,000)
Interest paid on long-term debt	(853,643)	-	(12,275)	(12,742)	-	-	(878,660)
Principal payments on capital leases	(280,600)	-	(6,719)	(123,516)	-	-	(410,835)
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Net cash from capital and related financing activities	<u>(4,174,565)</u>	<u>-</u>	<u>(24,664)</u>	<u>(150,166)</u>	<u>-</u>	<u>-</u>	<u>(4,349,395)</u>
Cash flow from investing activities							
Advances to physicians - net of forgiveness	230,759	-	-	-	-	-	230,759
Income received on investments	357,835	10	-	-	2,394	-	360,239
Income from other nonoperating gains	223,551	-	27,147	683	-	-	251,381
Transfer to (from) affiliates	(2,205,000)	(84,433)	1,475,000	630,000	-	184,433	-
Purchases of investments	(4,471,242)	-	-	-	-	-	(4,471,242)
Proceeds from sale of investments	4,645,166	84,433	-	-	-	(184,433)	4,545,166
Net cash from investing activities	<u>(1,218,931)</u>	<u>10</u>	<u>1,502,147</u>	<u>630,683</u>	<u>2,394</u>	<u>-</u>	<u>916,303</u>
Increase (decrease) in cash and cash equivalents	1,336,028	(112)	19,008	10,931	58,745	-	1,424,600
Cash and cash equivalents - beginning of year	11,033,899	551	39,188	22,977	143,547	-	11,240,162
Cash and cash equivalents- end of year	<u>\$ 12,369,927</u>	<u>\$ 439</u>	<u>\$ 58,196</u>	<u>\$ 33,908</u>	<u>\$ 202,292</u>	<u>\$ -</u>	<u>\$ 12,664,762</u>

See report of independent auditor on other financial information on page 35.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2004

	Hospital	HJDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Cash flows from operating and nonoperating activities							
Cash received from patients and third-party payors	\$ 39,564,390	-	\$ 2,281,927	\$ 1,385,873	-	-	\$ 43,232,190
Cash payments to suppliers for services and goods	(13,729,155)	(92)	(1,370,207)	(404,279)	(59,021)	10,391	(15,552,363)
Cash payments to employees for services	(19,127,673)	-	(2,164,306)	(1,311,703)	-	-	(22,603,682)
Other operating revenue	380,227	-	1,212	2,793	145,645	-	529,877
Net cash from operating and nonoperating activities	7,087,789	(92)	(1,251,374)	(327,316)	86,624	10,391	5,606,022
Cash flows from capital and related financing activities							
Acquisition and construction of capital assets	(2,503,817)	-	-	-	-	-	(2,503,817)
Principal payments on bonds	(467,631)	-	(6,273)	(113,853)	-	-	(587,757)
Interest paid on long-term debt	(811,697)	-	(12,720)	(22,404)	-	-	(846,821)
Issuance of long-term debt	3,905,000	-	-	-	-	-	3,905,000
Bond issuance costs	(104,610)	-	-	-	-	-	(104,610)
Principal payments on capital leases	(300,292)	-	-	-	-	-	(300,292)
Proceeds from sale of capital assets	1,390,541	-	222	-	-	-	1,390,763
Net cash from capital and related financing activities	1,107,494	-	(18,771)	(136,257)	-	-	952,466
Cash flow from investing activities							
Advances to physicians - net of forgiveness	219,762	-	-	-	-	-	219,762
Income received on investments	98,557	-	-	-	1,186	-	99,743
Income from other nonoperating gains	295,898	10	14,818	571	-	(10,391)	300,906
Transfer to (from) affiliates	(1,690,000)	-	1,225,000	465,000	-	-	-
Purchases of investments	(5,060,790)	-	-	-	-	-	(5,060,790)
Proceeds from sale of investments	5,883,330	-	-	-	-	-	5,883,330
Net cash from investing activities	(253,243)	10	1,239,818	465,571	1,186	(10,391)	1,442,951
Increase (decrease) in cash and cash equivalents	7,942,040	(82)	(30,327)	1,998	87,810	-	8,001,439
Cash and cash equivalents - beginning of year	3,091,859	633	69,515	20,979	55,737	-	3,238,723
Cash and cash equivalents- end of year	\$ 11,033,899	\$ 551	\$ 39,188	\$ 22,977	\$ 143,547	\$ -	\$ 11,240,162

See report of independent auditor on other financial information on page 35.



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

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

To the Joint Township Hospital Board of Trustees
and Hospital Board of Governors
Highland County Joint Hospital District and Component Units
Hillsboro, Ohio

We have audited the financial statements of the Highland County Joint Township Hospital District and Subsidiaries, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 17, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland County Joint Township Hospital District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Highland County Joint Township Hospital District in a separate letter dated March 17, 2006.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and The Auditor of the State of Ohio and is not intended to be an should not be used by anyone other than those specified parties.

Blue & Co., LLC

March 17, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 12, 2006**