HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Dave Yost · Auditor of State

Board of Trustees
Highland County Joint Township Hospital District
1275 N. 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, 2011 through December 31, 2011. 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.

Dave Yost

Dave Yost
Auditor of State

May 16, 2012

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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CPAs ADVISORS

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Highland County Joint Township Hospital District (the Hospital) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highland County Joint Township Hospital District as of December 31, 2011 and 2010, and its consolidated results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2012 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 Auditing Standards* and should be read in conjunction with this report when assessing the results of our audits.

Board of Trustees and Hospital Board of Governors
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

March 28, 2012

The discussion and analysis of Highland County Joint Township Hospital District's (the Hospital) consolidated financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. The financial statements reflect consolidated information for the Hospital and blended component units, therefore, management's discussion and analysis will focus on the consolidated financial statements. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Hospital's total assets and deferred outflows increased by $483,028 and total liabilities decreased by $689,502 during the year ended December 31, 2011. Net assets increased $1,172,530 or 5.1%, in 2011. The increase in net assets resulted primarily from the Hospital's growth in operating revenues of $568,704 and control of operating expenses, which decreased $113,676.

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.

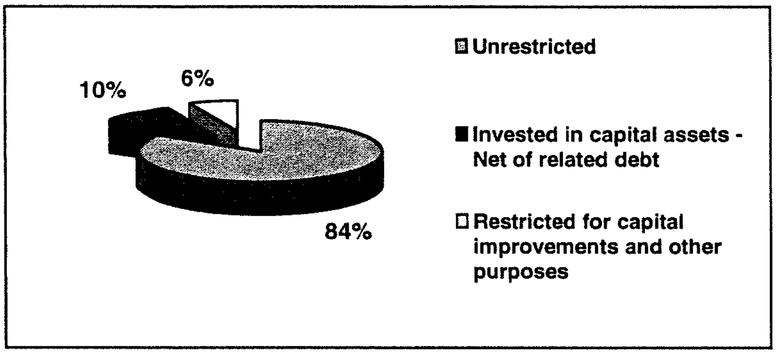
The Balance Sheet and Statement of Operations and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net assets report information about the Hospital's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Hospital's Net Assets

The following chart provides a breakdown of net assets by category at December 31, 2011.



For the year ended December 31, 2011, the Hospital's revenues and other support exceeded expenses and net nonoperating loss creating an increase in net assets of $1,172,530 compared to a $414,918 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, 2011, 2010 and 2009:

	December 31		
	2011	2010	2009
Assets:			
Current assets	$ 15,997,529	$ 14,068,115	$ 15,139,869
Noncurrent assets	10,771,589	10,633,933	11,002,925
Capital assets	12,075,911	13,906,897	13,596,053
Deferred outflows	919,148	672,204	593,505
Total assets and deferred outflows	$ 39,764,177	$ 39,281,149	$ 40,332,352
Liabilities:			
Current liabilities	$ 5,112,535	$ 5,004,794	$ 5,707,068
Long-term liabilities	10,676,582	11,473,825	12,237,674
Total liabilities	$ 15,789,117	$ 16,478,619	$ 17,944,742
Net assets:			
Invested in capital assets - net of debt	$ 2,450,911	$ 3,231,100	$ 1,770,674
Restricted assets	1,520,120	1,484,877	1,939,436
Unrestricted	20,004,029	18,086,553	18,677,502
Total net assets	$ 23,975,060	$ 22,802,530	$ 22,387,612

During 2011, current assets increased by 13.7%, driven by an increase in cash and cash equivalents. Noncurrent assets increased during 2011 primarily due to an increase in assets whose use is limited. Total liabilities decreased 4.2% during the year due to repayment of a portion of long-term debt during 2011. Net assets invested in capital assets, net of related debt, decreased primarily due to current year depreciation exceeding fixed asset additions.

Operating Results and Changes in the Hospital's Net Assets

Operating Results and Changes in Net Assets

	Year Ended December 31		
	2011	2010	2009
Operating revenues			
Net patient service revenue	$ 44,552,678	$ 43,975,032	$ 46,004,039
Other operating revenue	707,235	716,177	830,930
Total operating revenues	45,259,913	44,691,209	46,834,969
Operating expenses			
Salaries and wages	17,249,681	18,162,210	18,176,971
Employee benefits	7,242,740	5,537,448	6,482,335
Supplies	7,185,889	7,533,637	7,376,023
Purchased services	4,882,574	5,100,815	4,961,321
Physician fees	1,743,601	1,713,162	1,771,345
Depreciation and amortization	2,639,090	2,833,186	2,613,753
Professional fees	146,641	103,906	188,083
Utilities	971,842	974,720	1,005,038
Insurance	487,610	483,548	435,623
Other	1,316,567	1,537,279	1,161,385
Total operating expenses	43,866,235	43,979,911	44,171,877
Income from operations	1,393,678	711,298	2,663,092
Nonoperating gains (losses)			
Investment income	33,933	17,984	175,465
Capital grants	22,785	89,188	35,953
Interest earned on restricted assets	156,252	95,125	127,904
Interest expense	(453,541)	(498,579)	(951,561)
Other nonoperating gains	19,423	(98)	29,757
Total nonoperating losses	(221,148)	(296,380)	(582,482)
Excess of revenue over expenses	1,172,530	414,918	2,080,610
Net assets - beginning of year	22,802,530	22,387,612	20,307,002
Net assets - end of year	$ 23,975,060	$ 22,802,530	$ 22,387,612

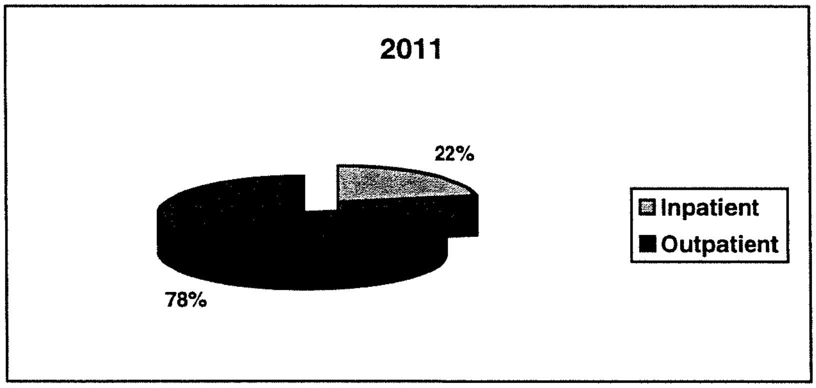
Operating Revenues

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 by 1.3% in 2011. This was attributable to changes in patient volumes and rate increases offset by increased deductions from revenue. 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 54.6% in 2010 to 55.0% of gross revenue in 2011.

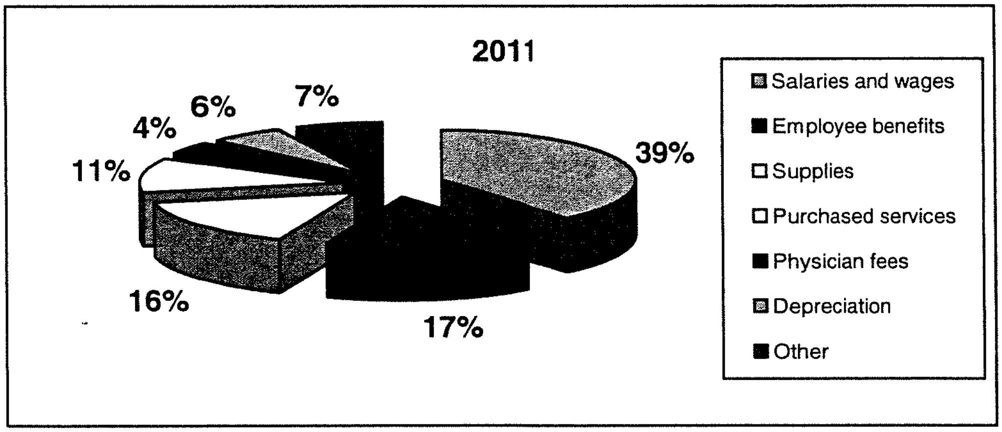
- The following is a graphic illustration of patient revenues by source:



Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The significant operating expense changes from 2010 to 2011 were the result of the following factors:

- Salaries and wages decreased approximately $912,000, or 5.0%, primarily as a result of fewer worked hours in 2011 than in 2010.
- Benefits expense increased approximately $1,705,000, or 30.8%, primarily due to a significant increase in health insurance claims.
- Supplies expenses decreased approximately $348,000, or 4.6%, due to lean process implementation in certain patient service departments leading to a reduction in purchases.
- Other expenses decreased approximately $221,000, or 14.4%, due to the Ohio Franchise tax assessment being reduced in 2011.
- The following is a graphic illustration of operating expenses by type:



Non-operating Gains (Losses)

Non-operating gains and losses are all sources and uses that are primarily non-exchange in nature. They consist primarily of investment income, including realized and unrealized gains and losses, grants, interest income and interest expense. The change in other non-operating losses from 2010 to 2011 was primarily due to increased investment and interest income and decreased interest expense.

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		
	2011	2010	2009
Cash provided by (used in):			
Operating activities	$ 4,230,459	$ 2,955,051	$ 4,147,962
Capital and related financing activities	(2,277,339)	(4,572,613)	(3,075,243)
Investing activities	(1,686,200)	(3,441,946)	2,511,771
Total	266,920	(5,059,508)	3,584,490
Cash - beginning of year	10,060,836	15,120,344	11,535,854
Cash - end of year	$ 10,327,756	$ 10,060,836	$ 15,120,344

Capital Asset and Debt Administration

Capital Assets

At December 31, 2011, the Hospital had a total investment of $40,790,779 in gross capital assets and accumulated depreciation totaled $28,714,868, resulting in a net carrying value of $12,075,911. Depreciation expense for 2011 was 2,623,448 compared to $2,701,263 for 2010.

Debt

At December 31, 2011, the Hospital had $9,625,000 in long-term debt outstanding as compared to $10,675,797 at December 31, 2010. The Hospital continues to pay down its 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. The Hospital entered into pay-fixed, receivable-variable interest rate swap in 2007 with a fixed rate of 3.942 percent and terminates on December 1, 2021. The fair value of the swap as of December 31, 2011, and 2010 was a liability of $919,148, and $672,204, respectively.

Economic Factors that Will Affect the Future

The Hospital will be directly impacted by outside factors into the future. Some of these factors may include:

- A struggling local and state economy. This may cause volumes to decline, or increased bad debts, charity care and Medicaid utilization.
- Federal and state governments budget deficits, which will increase the likelihood of funding cuts for Medicare and Medicaid.
- The Affordable Care Act signed into law in 2010 is being challenged and the financial impact is unknown at this time.
- Physician relationships/alignment will continue to develop, and impact quality, cost, and services to the community.

The Hospital will continue to meet these challenges in healthcare through improved efficiencies, continuous quality improvement, physician and staff relations, and technology.

Contacting the Hospital's Management

This financial report is intended to provide the reader with a general overview of the Hospital's finances. If you have questions about this report or need additional information, we welcome you to contact the Chief Financial Officer at 1275 North High Street, Hillsboro, Ohio 45133.

Randal Lennartz
Chief Financial Officer

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 8,274,626	$ 6,274,607
Assets limited as to use - current portion	282,559	272,862
Patient accounts receivable, net of allowances for uncollectible accounts; $5,782,460 in 2011 and $5,147,026 in 2010	6,427,222	6,416,105
Inventories	379,752	423,927
Prepaid expenses and other current assets	632,001	679,390
Accrued interest receivable	1,369	1,224
Total current assets	15,997,529	14,068,115
Asset whose use is limited		
Restricted by contributors for capital improvements and other purposes	1,220,088	1,194,542
Principal of permanent endowments	17,473	17,473
Designated by Board for capital improvements and employee benefits	9,456,498	9,329,032
Held by trustee under bond indenture agreements	282,559	272,862
Total assets limited as to use	10,976,618	10,813,909
less amounts to meet current obligations	(282,559)	(272,862)
Total assets limited as to use - noncurrent portion	10,694,059	10,541,047
Capital assets, net	12,075,911	13,906,897
Other assets		
Unamortized financing cost, net	77,530	92,886
Total other assets	77,530	92,886
Deferred outflows	919,148	672,204
Total assets and deferred outflows	$ 39,764,177	$ 39,281,149

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Current portion of long-term debt	$ 855,000	$ 911,269
Accounts payable	1,075,185	1,214,017
Accrued liabilities	1,578,127	1,477,228
Estimated amounts due to third-party payors	1,604,223	1,402,280
Total current liabilities	5,112,535	5,004,794
Interest rate swap	919,148	672,204
Compensated absences	987,434	1,037,093
Long-term debt, net of current portion	8,770,000	9,764,528
Total liabilities	15,789,117	16,478,619
Net assets		
Invested in capital assets - net of related debt	2,450,911	3,231,100
Restricted:		
Expendable for capital improvements and debt service	1,502,647	1,467,404
Nonexpendable permanent endowments	17,473	17,473
Unrestricted	20,004,029	18,086,553
Total net assets	23,975,060	22,802,530
Total liabilities and net assets	$ 39,764,177	$ 39,281,149

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating revenues		
Net patient service revenue	$ 44,552,678	$ 43,975,032
Other operating revenue	707,235	716,177
Total operating revenues	45,259,913	44,691,209
Operating expenses		
Salaries and wages	17,249,681	18,162,210
Employee benefits	7,242,740	5,537,448
Supplies	7,185,889	7,533,637
Purchased services	4,882,574	5,100,815
Physician fees	1,743,601	1,713,162
Depreciation and amortization	2,639,090	2,833,186
Professional fees	146,641	103,906
Utilities	971,842	974,720
Insurance	487,610	483,548
Other	1,316,567	1,537,279
Total operating expenses	43,866,235	43,979,911
Income from operations	1,393,678	711,298
Nonoperating gains (losses)		
Investment income	33,933	17,984
Capital grants	22,785	89,188
Interest earnings on restricted assets	156,252	95,125
Interest expense	(453,541)	(498,579)
Other nonoperating gains (losses)	19,423	(98)
Total nonoperating gains (losses)	(221,148)	(296,380)
Change in net assets	1,172,530	414,918
Net assets - beginning of year	22,802,530	22,387,612
Net assets - end of year	$ 23,975,060	$ 22,802,530

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 44,743,504	$ 43,140,352
Cash payments to suppliers for services and goods	(16,779,099)	(16,822,084)
Cash payments to employees and related benefits	(24,441,181)	(24,079,394)
Other operating revenue	707,235	716,177
Net cash flows from operating activities	4,230,459	2,955,051
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(797,306)	(3,045,896)
Proceeds from disposal of capital assets	1,520	32,256
Principal payments on bonds	(999,339)	(849,208)
Interest paid	(453,541)	(498,579)
Principal payments on capital leases	(51,458)	(300,374)
Capital grants received	22,785	89,188
Net cash flows from capital and related financing activities	(2,277,339)	(4,572,613)
Cash flow from investing activities		
Income received on investments	190,185	113,109
Income from other nonoperating gains	19,423	(1,631)
Change in investments	(1,895,808)	(3,553,424)
Net cash flows from investing activities	(1,686,200)	(3,441,946)
Change in cash and cash equivalents	266,920	(5,059,508)
Cash and cash equivalents - beginning of year	10,060,836	15,120,344
Cash and cash equivalents- end of year	$ 10,327,756	$ 10,060,836
Balance sheet classification of cash and cash equivalents		
Current assets - cash	$ 8,274,626	$ 6,274,607
Assets limited as to use	2,053,130	3,786,229
Total	$ 10,327,756	$ 10,060,836
Supplemental disclosure of non cash activities		
Interest rate swap and deferred outflows	$ 246,944	$ 672,204

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2011 AND 2010

A reconciliation of income from operations to net cash flows from operating activities follows:

	2011	2010
Cash flows from operating activities		
Income from operations	$ 1,393,678	$ 711,298
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation and amortization	2,639,090	2,833,186
Provision for bad debt	6,194,840	8,016,590
Loss on sale of assets	3,324	1,533
Change in operating assets and liabilities		
Patient receivables	(6,205,957)	(8,486,995)
Inventories	44,175	(16,591)
Prepaid expenses and other	46,958	291,268
Accounts payable	(138,832)	348,773
Accrued expenses and compensated absences	51,240	(379,736)
Estimated amounts due to third-party payors	201,943	(364,275)
Net cash from operating activities	$ 4,230,459	$ 2,955,051

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

The accompanying consolidated 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.

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 follows the "business-type" activities reporting requirements of GASB Statement No. 34.

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.

Investment income or loss (including unrealized gains and losses on investments, realized gains and losses on investments, interest, and dividends) is included in nonoperating gains (losses).

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

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 $15,642 and $131,923 in 2011 and 2010, respectively.

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 Organization 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.

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 nets 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 Organization has agreements with third-party payors that provide for payments to the Organization 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 Organization estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Organization.

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 which are reported as nonoperating activities based on GASB reporting requirements. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Pension Plan

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

Charity Care

The Organization provides care to patients who meet certain criteria under the Organization's charity policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Of the Organization's total reported operating expenses (approximately $43,866,000 and $43,980,000 during 2011 and 2010, respectively), an estimated $586,000 and $1,021,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses plus interest expense divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $509,000 and $359,000 for 2011 and 2010, respectively.

Federal Income Tax

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

Beneficial Interest in Trust

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

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is March 28, 2012.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Common stocks - large cap	$ 106,736	$ -	$ -	$ 106,736
Total	$ 106,736	$ -	$ -	$ 106,736
Liabilities:				
Interest rate swap agreements	$ -	$ 919,148	$ -	$ 919,148

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Obligations	$ -	$ 500,500	$ -	$ 500,500
Common stocks - large cap	102,928	-	-	102,928
Total	$ 102,928	$ 500,500	$ -	$ 603,428
Liabilities:				
Interest rate swap agreements	$ -	$ 672,204	$ -	$ 672,204

3. DEPOSITS AND INVESTMENTS

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

	2011		2010	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	$ 10,327,756	$ 10,327,756	$ 10,060,836	$ 10,060,836
Certificates of deposit	8,816,752	8,816,752	6,424,252	6,424,252
U. S. government obligations	-	-	500,500	500,500
Stocks	106,736	5,787	102,928	5,787
Total	$ 19,251,244	$ 19,150,295	$ 17,088,516	$ 16,991,375

	2011		2010	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 8,274,626	$ 8,274,626	$ 6,274,607	$ 6,274,607
Assets limited as to use	10,976,618	10,875,669	10,813,909	10,716,768
Total	$ 19,251,244	$ 19,150,295	$ 17,088,516	$ 16,991,375

Protection of the Organization's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

At December 31, 2011 and 2010, the Organization had $7,425,432 and $9,264,109, respectively, of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution.

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 Organization had the following investments and maturities, all of which are held in the organizations name by a custodial bank that is an agent of the Organization.

	Carrying Amount	Maturities	
		< than one year	> than one year
December 31, 2011			
Certificates of deposit	$ 8,816,752	$ 2,207,809	$ 6,608,943

Interest rate risk – The Organization has a formal investment policy that limits investment maturities to within five years of settlement date as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Organization 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; 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; certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Organization has an action plan whereby deposits and investments are diversified between several issuers. The Organization maintains its investments, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on investments.

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2011	2010
Total patient accounts receivable	$ 17,955,273	$ 17,027,368
Less allowance for:		
Uncollectible accounts	(5,782,460)	(5,147,026)
Contractual adjustments	(5,745,591)	(5,464,237)
Net patient accounts receivable	$ 6,427,222	$ 6,416,105

The mix of accounts receivable and gross revenues from patients and third-party payors in 2011 and 2010 follows:

	2011		2010	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	23%	44%	23%	43%
Medicaid	13%	21%	14%	20%
Self-pay	40%	8%	37%	10%
Commercial and other	24%	27%	26%	27%
	100%	100%	100%	100%

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	2010	Additions	Retirements	2011
Land	$ 24,937	$ -	$ -	$ 24,937
Land improvements	711,241	-	-	711,241
Buildings and improvements	15,927,511	197,127	-	16,124,638
Equipment	20,733,138	582,409	(259,802)	21,055,745
Equipment - capital leases	2,829,237	-	-	2,829,237
Construction in progress	27,211	17,770	-	44,981
Total capital assets	40,253,275	797,306	(259,802)	40,790,779
Less accumulated depreciation				
Land improvements	639,839	7,106	-	646,945
Buildings and improvements	9,058,184	710,916	-	9,769,100
Equipment	13,852,788	1,841,503	(245,935)	15,448,356
Equipment - capital leases	2,795,567	63,923	(9,023)	2,850,467
Total accumulated depreciation	26,346,378	2,623,448	(254,958)	28,714,868
Capital assets, net	$ 13,906,897	$ (1,826,142)	$ (4,844)	$ 12,075,911

Capital asset activity for the year ended December 31, 2010 was as follows:

	2009	Additions	Retirements	2010
Land	$ 24,937	$ -	$ -	$ 24,937
Land improvements	711,241	-	-	711,241
Buildings and improvements	15,325,445	101,221	500,845	15,927,511
Equipment	18,342,043	820,025	1,571,070	20,733,138
Equipment - capital leases	2,829,237	-	-	2,829,237
Construction in progress	144,590	2,124,650	(2,242,029)	27,211
Total capital assets	37,377,493	3,045,896	(170,114)	40,253,275
Less accumulated depreciation				
Land improvements	630,343	9,496	-	639,839
Buildings and improvements	8,303,911	754,273	-	9,058,184
Equipment	12,387,686	1,601,427	(136,325)	13,852,788
Equipment - capital leases	2,459,500	336,067	-	2,795,567
Total accumulated depreciation	23,781,440	2,701,263	(136,325)	26,346,378
Capital assets, net	$ 13,596,053	$ 344,633	$ (33,789)	$ 13,906,897

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 65% of the Organization's revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of these reimbursements follows.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. During the years ended December 31, 2011 and 2010, the Organization recognized a gain of approximately $526,000 and $581,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology.

Medicare

The Hospital is 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 2008.

Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are 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. Medicaid cost reports are final settled through 2005.

Other

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.

7. LONG-TERM DEBT

The Organization is bound by various operational and financial covenants, including maintaining a minimum debt service ratio of 1.2 to 1 and at least 20 days cash on hand. The Organization believes that it is in compliance with these covenants.

On November 29, 2001, PSC obtained a $215,000 mortgage loan to purchase a medical office building and related property. The mortgage was paid in full in 2011.

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 mature August 1, 2024. The interest rate on the variable rate debt was 0.26% at December 31, 2011. The debt is collateralized by a bank letter of credit which expires on July 1, 2013.

$10,180,000 of variable rate Hospital Facilities Revenue Refunding Bonds were issued in 2007 to refund a total of $10,450,000 1999 bonds with an interest rate of 6.75%. The interest rate on the variable rate debt was 0.20% at December 31, 2011. The debt is collateralized by a bank letter of credit which expires on July 1, 2013.

The variable rate 2007 Bonds and 2004 Bonds are both 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 Bonds. The Reimbursement Agreement between the letter-of-credit bank and the Organization provides for the Organization to reimburse the letter-of-credit bank any principal or interest draws against the letter of credit on the date of any such drawing and remarketing draws upon maturity of the letter of credit.

The Organization leased medical equipment used in its operations under a capital lease which ended in 2011. Depreciation of the asset under the capital lease is included in depreciation expense for 2011 and 2010.

Long-term debt activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 51,458	$ -	$ (51,458)	$ -	$ -
Bonds and loans payable	10,624,339	-	(999,339)	9,625,000	855,000
Total leases, bonds, and loans payable	$ 10,675,797	$ -	$ (1,050,797)	$ 9,625,000	$ 855,000

Long-term debt activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 351,832	$ -	$ (300,374)	$ 51,458	$ 51,458
Bonds and loans payable	11,473,547	-	(849,208)	10,624,339	859,811
Total leases, bonds, and loans payable	$ 11,825,379	$ -	$ (1,149,582)	$ 10,675,797	$ 911,269

The following is a schedule of bond and loan principal and interest payments as of December 31, 2011:

	Bonds and Loans Payable	Bonds and Loans Interest	Interest Rate Swap, Net
2012	$ 855,000	$ 279,429	$ 230,180
2013	860,000	275,950	230,183
2014	870,000	242,799	200,799
2015	875,000	214,039	175,907
2016	880,000	195,090	160,747
2017-2021	4,505,000	481,672	372,988
2022-2024	780,000	15,863	-
Total payments	$ 9,625,000	$ 1,704,842	$ 1,370,804

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

	2011	2010
Cost of equipment under capital lease	$ 2,829,237	$ 2,829,237
Lease accumulated amortization	2,829,237	2,795,567
Net carrying amount	$ -	$ 33,670

8. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Organization has one interest rate swap agreement in effect at December 31, 2011 for the $10,180,000 2007 Hospital Facilities Revenue Refunding Bonds.

Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bonds, the Organization entered into an interest rate swap in connection with its 2007 Hospital Facilities Revenue Refunding Bonds. The intention of the swap agreement was to effectively change the Organization's variable interest rate on the bonds to a fixed rate of 3.942%.

Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swap as of December 31, 2011 follows. The notional amount of the swap matches the principal amount of the associated debt and declines with the principal amortization on the bonds.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date	Counterparty Credit Rating
2007 Hospital Facilities Revenue Refunding Bonds	$ 6,780,000	6/1/2007	3.942%	0.20%	$ (919,148)	December 1, 2021	Aa1/A+/AA-

As of December 31, 2011, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreement should the variable rate on the bonds increase. The variable rate on the swap is the Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly.

The counterparty carries a guarantee by an entity ("counterparty guarantor") rated Aa1 by Moody's Investors Service (Moody's), A+ by Standard and Poor's (S&P), and AA- by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap and the bonds interest rates are both tied to the SIFMA index, therefore basis risk relating to the swap is minimal.

Termination Risk

The Organization or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Organization would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt

Using rates as of December 31, 2011, debt service requirements of the variable rate debt and net swap payments of the 2007 Hospital Facilities Revenue Refunding Bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in Note 7. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The Organization has determined the swap to be an effective hedge. Accordingly, the fair value of the swap has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheet while the swap remains an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

	2011	2010
Deferred outflow	$ 919,148	$ 672,204

	Liabilities	
	2011	2010
Interest rate swap agreements	$ 919,148	$ 672,204

9. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2011 and 2010 are as follows:

	2011	2010
Payroll and related amounts	$ 1,144,923	$ 958,039
Workers' compensation premiums	139,351	189,725
Pension	279,421	283,640
Interest	14,432	45,824
Total accrued liabilities	$ 1,578,127	$ 1,477,228

10. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	2011	2010
Revenue:		
Inpatient services:		
Routine services	$ 8,152,304	$ 8,144,234
Ancillary services	13,155,527	12,295,605
Outpatient services	77,731,841	76,518,173
Total patient revenue	99,039,672	96,958,012
Revenue deductions:		
Provision for contractual allowances	46,872,729	42,547,069
Provision for bad debt allowances	6,194,840	8,016,590
Provision for charity care	1,419,425	2,419,321
Total revenue deductions	54,486,994	52,982,980
Total net patient service revenue	$ 44,552,678	$ 43,975,032

11. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Organization contributed to the Ohio Public Employees Retirement System (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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Organization's contributions, representing 100% of employer contributions, for the last three years follow:

Year	Contribution
2011	$ 1,899,000
2010	$ 1,952,000
2009	$ 2,087,000

Organization contributions made to fund post-employment healthcare benefits approximated $543,000, $709,000, and $876,000 for 2011, 2010 and 2009, respectively, which are included in the table above.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

12. SELF-INSURED BENEFITS

The Organization provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that generally covers specific claims over $60,000 and an aggregate annual aggregate deductible of $4,529,994. However, the policy allows separate individual specific deductibles based on diagnosis. The aggregate contract period reimbursement maximum under the policy is $1,000,000. Total health expenses charged to operations, including an estimate of incurred but unreported claims, totaled $3,994,536 and $2,306,570 in 2011 and 2010, respectively.

13. 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-made 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 $7,000,000 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 Organization 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.

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

We have audited the consolidated financial statements of Highland County Joint Township Hospital District (the Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 28, 2012. 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 the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the consolidated financial statements of Highland County Joint Township Hospital District 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 that are required to be reported under *Government Auditing Standards.*

We communicated certain matters to the Organization's management in a separate letter dated March 28, 2012.

This report is intended solely for the information and use of the Board of Trustees, Hospital Board of Governors, management and the auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

Blue & Co., LLC

March 28, 2012

SUPPLEMENTARY FINANCIAL INFORMATION

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 7,999,637	$ 328	$ 147,416	$ 34,526	$ 92,719	$ -	$ 8,274,626
Assets limited as to use - current portion	282,559	-	-	-	-	-	282,559
Patient accounts receivable - net	5,696,647	-	582,864	147,711	-	-	6,427,222
Inventories	379,752	-	-	-	-	-	379,752
Prepaid expenses and other current assets	542,238	-	70,772	18,991	-		632,001
Accrued interest receivable	1,369	-	-	-	-	-	1,369
Notes and grants receivable - current portion	8,722	-	-	-	-	(8,722)	-
Total current assets	14,910,924	328	801,052	201,228	92,719	(8,722)	15,997,529
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	1,045,509	-	-	-	174,579	-	1,220,088
Principal of permanent endowments	-	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	9,354,904	101,594	-	-	-	-	9,456,498
Held by trustee under bond indenture agreements	282,559	-	-	-	-	-	282,559
Total assets limited as to use	10,682,972	101,594	-	-	192,052	-	10,976,618
Less amounts to meet current obligations	(282,559)	-	-	-	-	-	(282,559)
Total assets limited as to use - noncurrent portion	10,400,413	101,594	-	-	192,052	-	10,694,059
Capital assets - net	11,769,524	-	272,756	33,631	-	-	12,075,911
Other assets							
Unamortized financing costs - net	77,530	-	-	-	-	-	77,530
Total other assets	77,530	-	-	-	-	-	77,530
Deferred outflow	919,148	-	-	-	-	-	919,148
Total assets and deferred outflow	$ 38,077,539	$ 101,922	$ 1,073,808	$ 234,859	$ 284,771	$ (8,722)	$ 39,764,177

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	$ 855,000	$ -		$ -	$ -	$ -	$ 855,000
Accounts payable	947,322	-	110,431	17,432	-	-	1,075,185
Accrued liabilities	1,416,694	-	107,899	62,256	-	(8,722)	1,578,127
Estimated amounts due to third-party payors	1,604,223	-	-	-	-	-	1,604,223
Total current liabilities	4,823,239	-	218,330	79,688	-	(8,722)	5,112,535
Interest rate swap	919,148	-	-	-	-	-	919,148
Compensated absences	960,646	-	23,622	3,166	-	-	987,434
Long-term debt - net of current portion	8,770,000	-	-	-	-	-	8,770,000
Total liabilities	15,473,033	-	241,952	82,854	-	(8,722)	15,789,117
Net assets							
Invested in capital assets - net of related debt	2,144,524	-	272,756	33,631	-	-	2,450,911
Restricted:							
Expendable for capital improvements and debt service	1,328,068	-	-	-	174,579	-	1,502,647
Nonexpendable permanent endowments	-	-	-	-	17,473	-	17,473
Unrestricted	19,131,914	101,922	559,100	118,374	92,719	-	20,004,029
Total net assets	22,604,506	101,922	831,856	152,005	284,771	-	23,975,060
Total liabilities and net assets	$ 38,077,539	$ 101,922	$ 1,073,808	$ 234,859	$ 284,771	$ (8,722)	$ 39,764,177

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 6,118,073	$ 240	$ 31,892	$ 31,320	93,082	$ -	$ 6,274,607
Assets limited as to use - current portion	272,862	-	-	-	-	-	272,862
Patient accounts receivable - net	5,502,324	-	717,946	195,835	-	-	6,416,105
Inventories	423,927	-	-	-	-	-	423,927
Prepaid expenses and other current assets	619,050	-	71,453	22,861	-	(33,974)	679,390
Accrued interest receivable	1,224	-	-	-	-	-	1,224
Notes and grants receivable - current portion	11,706	-	-	-	-	(11,706)	-
Total current assets	12,949,166	240	821,291	250,016	93,082	(45,680)	14,068,115
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	1,033,732	-	-	-	160,810	-	1,194,542
Principal of permanent endowments	-	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	9,228,901	100,131	-	-	-	-	9,329,032
Held by trustee under bond indenture agreements	272,862	-	-	-	-	-	272,862
Total assets limited as to use	10,535,495	100,131	-	-	178,283	-	10,813,909
Less amounts to meet current obligations	(272,862)	-	-	-	-	-	(272,862)
Total assets limited as to use - noncurrent portion	10,262,633	100,131	-	-	178,283	-	10,541,047
Capital assets - net	13,569,784	-	311,302	25,811	-	-	13,906,897
Other assets							
Unamortized financing costs - net	92,886	-	-	-	-	-	92,886
Total other assets	92,886	-	-	-	-	-	92,886
Deferred outflow	672,204	-	-	-	-	-	672,204
Total assets and deferred outflow	$ 37,546,673	$ 100,371	$ 1,132,593	$ 275,827	$ 271,365	$ (45,680)	$ 39,281,149

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	$ 901,458	$ -	$ 9,811	$ -	$ -	$ -	$ 911,269
Accounts payable	1,118,455	-	80,263	34,862	1,680	(21,243)	1,214,017
Accrued liabilities	1,321,527	-	102,786	77,352	-	(24,437)	1,477,228
Estimated amounts due to third-party payors	1,402,280	-	-	-	-	-	1,402,280
Total current liabilities	4,743,720	-	192,860	112,214	1,680	(45,680)	5,004,794
Interest rate swap	672,204	-	-	-	-	-	672,204
Compensated absences	1,015,680	-	19,287	2,126	-	-	1,037,093
Long-term debt - net of current portion	9,625,000	-	139,528	-	-	-	9,764,528
Total liabilities	16,056,604	-	351,675	114,340	1,680	(45,680)	16,478,619
Net assets							
Invested in capital assets - net of related debt	3,043,326	-	161,963	25,811	-	-	3,231,100
Restricted:							
Expendable for capital improvements and debt service	1,306,594	-	-	-	160,810	-	1,467,404
Nonexpendable permanent endowments	-	-	-	-	17,473	-	17,473
Unrestricted	17,140,149	100,371	618,955	135,676	91,402	-	18,086,553
Total net assets	21,490,069	100,371	780,918	161,487	269,685	-	22,802,530
Total liabilities and net assets	$ 37,546,673	$ 100,371	$ 1,132,593	$ 275,827	$ 271,365	$ (45,680)	$ 39,281,149

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	$ 39,870,863	$ -	$ 3,672,548	$ 1,028,165	$ -	$ (18,898)	$ 44,552,678
Other operating revenue	690,030	1,551	-	-	96,699	(81,045)	707,235
Total operating revenues	40,560,893	1,551	3,672,548	1,028,165	96,699	(99,943)	45,259,913
Operating expenses							
Salaries and wages	13,618,598	-	2,471,000	1,160,083	-	-	17,249,681
Employee benefits	6,529,072	-	458,615	255,053	-	-	7,242,740
Supplies	6,945,328	-	85,533	118,418	36,610	-	7,185,889
Purchased services	3,722,246	-	1,170,024	17,433	36,006	(63,135)	4,882,574
Physician fees	1,740,196	-	-	-	3,405	-	1,743,601
Depreciation and amortization	2,595,405	-	38,546	5,139	-	-	2,639,090
Professional fees	146,641	-	-	-	-	-	146,641
Utilities	859,755	-	84,785	27,302	-	-	971,842
Insurance	332,718	-	83,612	71,280	-	-	487,610
Other	764,533	-	397,232	183,189	8,421	(36,808)	1,316,567
Total operating expenses	37,254,492	-	4,789,347	1,837,897	84,442	(99,943)	43,866,235
Income (loss) from operations	3,306,401	1,551	(1,116,799)	(809,732)	12,257	-	1,393,678
Nonoperating gains (losses)							
Investment income	31,104	-	-	-	2,829	-	33,933
Capital grants	22,785	-	-	-	-	-	22,785
Interest on restricted assets	156,252	-	-	-	-	-	156,252
Interest expense	(445,208)	-	(8,333)	-	-	-	(453,541)
Other nonoperating gains	18,103	-	1,070	250	-	-	19,423
Total nonoperating gains (losses)	(216,964)	-	(7,263)	250	2,829	-	(221,148)
Excess of revenue over expenses	3,089,437	1,551	(1,124,062)	(809,482)	15,086	-	1,172,530
Transfer from (to) affiliates	(1,975,000)	-	1,175,000	800,000	-	-	-
Change in net assets	1,114,437	1,551	50,938	(9,482)	15,086	-	1,172,530
Net assets - beginning of year	21,490,069	100,371	780,918	161,487	269,685	-	22,802,530
Net assets - end of year	$ 22,604,506	$ 101,922	$ 831,856	$ 152,005	$ 284,771	$ -	$ 23,975,060

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	$ 39,236,266	$ -	$ 3,698,274	$ 1,082,718	$ -	$ (42,226)	$ 43,975,032
Other operating revenue	740,477	275	561	264	90,022	(115,422)	716,177
Total operating revenue	39,976,743	275	3,698,835	1,082,982	90,022	(157,648)	44,691,209
Operating expenses							
Salaries and wages	14,551,371	-	2,463,018	1,147,821	-	-	18,162,210
Employee benefits	4,943,006	-	352,552	241,890	-	-	5,537,448
Supplies	7,267,553	-	126,421	117,464	22,199	-	7,533,637
Purchased services	3,822,350	-	1,299,679	12,668	30,867	(64,749)	5,100,815
Physician fees	1,708,717	-	21,467	-	4,445	(21,467)	1,713,162
Depreciation and amortization	2,712,685	-	58,107	62,394	-	-	2,833,186
Professional fees	103,906	-	-	-	-	-	103,906
Utilities	884,743	-	87,104	30,436	-	(27,563)	974,720
Insurance	379,391	-	77,244	70,782	-	(43,869)	483,548
Other	887,787	18	423,867	175,169	50,438	-	1,537,279
Total operating expenses	37,261,509	18	4,909,459	1,858,624	107,949	(157,648)	43,979,911
Income (loss) from operations	2,715,234	257	(1,210,624)	(775,642)	(17,927)	-	711,298
Nonoperating gains (losses)							
Investment income	14,019	-	-	4	3,961	-	17,984
Capital grants	89,188	-	-	-	-	-	89,188
Interest on restricted assets	95,125	-	-	-	-	-	95,125
Interest expense	(488,794)	-	(9,785)	-	-	-	(498,579)
Other nonoperating gains	(1,533)	-	1,370	65	-	-	(98)
Total nonoperating gains (losses)	(291,995)	-	(8,415)	69	3,961	-	(296,380)
Excess of revenue over expenses	2,423,239	257	(1,219,039)	(775,573)	(13,966)	-	414,918
Transfer from (to) affiliates	(2,225,000)	100,000	1,350,000	775,000	-	-	-
Change in net assets	198,239	100,257	130,961	(573)	(13,966)	-	414,918
Net assets - beginning of year	21,291,830	114	649,957	162,060	283,651	-	22,387,612
Net assets - end of year	$ 21,490,069	$ 100,371	$ 780,918	$ 161,487	$ 269,685	$ -	$ 22,802,530

See report of independent auditors on page 1.

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
MAY 29, 2012