

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014 AND 2013

CPAs / ADVISORS





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, 2014 through December 31, 2014. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

May 12, 2015

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

Highland County Joint Township Hospital District
Highland County
1275 North High St.
Hillsboro, Ohio 45133

To the Board of Trustees and Hospital Board of Governors:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Highland County Joint Township Hospital District (the Hospital) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Change in Reporting Entity

As discussed in Note 2 to the consolidated financial statements, Highland Health Providers Corporation (HHPC) restructured its organization. As a result, HHPC is not a component unit of the Hospital and the consolidated financial statements exclude HHPC's assets, liabilities, net position, results of its operations and cash flows. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic consolidated financial statements. Although this information is not part of the basic consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information

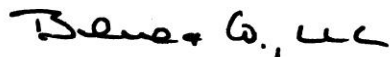
Our audit was conducted to opine on the Hospital's basic consolidated financial statements taken as a whole.

The consolidating information on pages 34 through 39 present additional analysis and is not a required part of the basic consolidated financial statements.

The consolidating balance sheets and consolidating statements of operations and changes in net position are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. We subjected these consolidating statements to the auditing procedures we applied to the basic consolidated financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic 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 basic consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Columbus, Ohio
March 31, 2015

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

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, 2014 and 2013. The financial statements reflect consolidated information for the Hospital and its 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.

Change in Reporting Entity

Highland Health Providers Corporation (HHPC) restructured its organization during 2014. As a result, HHPC is no longer a component unit of the Hospital and management's discussion and analysis exclude HHPC's assets, liabilities, net position, results of its operations and cash flows for 2014, 2013 and 2012.

Financial Highlights

The Hospital's total assets and deferred outflows increased \$1,880,134 and total liabilities decreased by \$1,968,824 during the year ended December 31, 2014. Total net position increased \$3,848,958, or 13.4%, in 2014.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Position; 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 Position

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 this year's activities?" The balance sheet and statement of operations and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets 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.

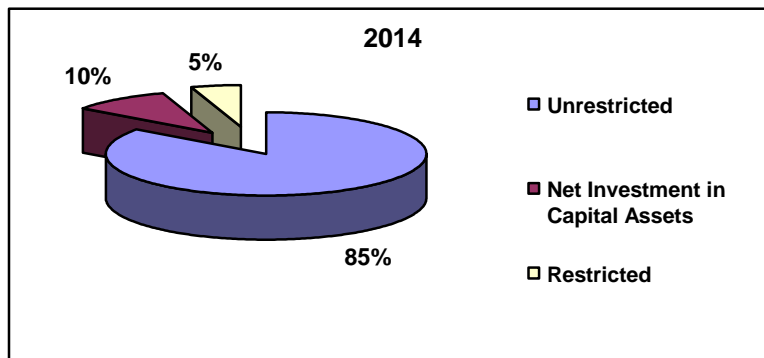
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - 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 position 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 Position

The following chart provides a breakdown of net position by category at December 31, 2014.



For the year ended December 31, 2014, the Hospital's income from operations, total non-operating gains and transfers resulted in an increase in net position of \$3,848,958 compared to a \$3,360,753 increase in 2013.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2014, 2013 and 2012:

	December 31		
	2014	As restated	
	2013	2012	
Assets:			
Current assets	\$ 11,727,688	\$ 10,956,867	\$ 11,684,160
Noncurrent assets	21,761,107	20,088,556	15,836,333
Capital assets	10,303,216	10,787,827	10,699,705
Deferred outflows	502,050	580,677	897,488
Total assets and deferred outflows	\$ 44,294,061	\$ 42,413,927	\$ 39,117,686
Liabilities:			
Current liabilities	\$ 4,152,796	\$ 5,166,913	\$ 4,021,729
Long-term liabilities	7,686,727	8,641,434	9,851,130
Total liabilities	\$ 11,839,523	\$ 13,808,347	\$ 13,872,859
Net position:			
Net investment in capital assets	\$ 3,263,216	\$ 2,877,827	\$ 1,929,705
Restricted	1,622,491	1,514,858	1,540,424
Unrestricted	27,568,831	24,212,895	21,774,698
Total net position	\$ 32,454,538	\$ 28,605,580	\$ 25,244,827

During 2014, current assets increased by 7.0% primarily due to an increase in patient accounts receivable, net of allowances for uncollectible accounts. Noncurrent assets increased during 2014 primarily due to an increase in investments. Total liabilities decreased 14.3% during the year due to repayment of long-term debt. Net position invested in capital assets increased 13.4% primarily due to current year capital asset additions exceeding depreciation.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

Operating Results and Changes in the Hospital's Net Position

	Year Ended December 31		
	2014	As restated	
		2013	2012
Operating revenues			
Net patient service revenue	\$ 44,979,540	\$ 42,494,258	\$ 42,336,375
Other operating revenue	1,488,130	1,543,527	1,987,785
Total operating revenues	46,467,670	44,037,785	44,324,160
Operating expenses			
Salaries and wages	16,906,495	16,450,660	15,746,020
Employee benefits	5,718,214	5,096,157	6,733,840
Supplies	6,737,349	5,895,826	6,832,788
Purchased services	5,519,349	5,439,270	5,309,784
Physician fees	1,368,630	1,421,533	1,586,746
Depreciation and amortization	2,190,971	2,338,831	2,444,985
Professional fees	266,350	214,486	166,051
Utilities	928,688	873,764	925,742
Insurance	354,025	330,653	416,697
Other	1,408,259	1,445,346	1,488,319
Total operating expenses	41,398,330	39,506,526	41,650,972
Income from operations	5,069,340	4,531,259	2,673,188
Non-operating gains (losses)			
Investment income	267,481	110,711	60,675
Grant income	22,933	26,139	53,800
Grant expense	(450,000)	-	-
Interest earned on restricted assets	179,909	110,893	109,885
Interest expense	(305,869)	(353,059)	(384,082)
Gain (loss) on disposal of capital assets	(174,151)	2,088	(2,538)
Other non-operating gains (losses)	14,315	(192,278)	63,374
Total non-operating gains (losses)	(445,382)	(295,506)	(98,886)
Excess of revenue over expenses	4,623,958	4,235,753	2,574,302
Transfer to affiliates	(775,000)	(875,000)	(1,075,000)
Change in net position	3,848,958	3,360,753	1,499,302
Net position - beginning of year	28,605,580	25,244,827	23,745,525
Net position - end of year	\$ 32,454,538	\$ 28,605,580	\$ 25,244,827

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

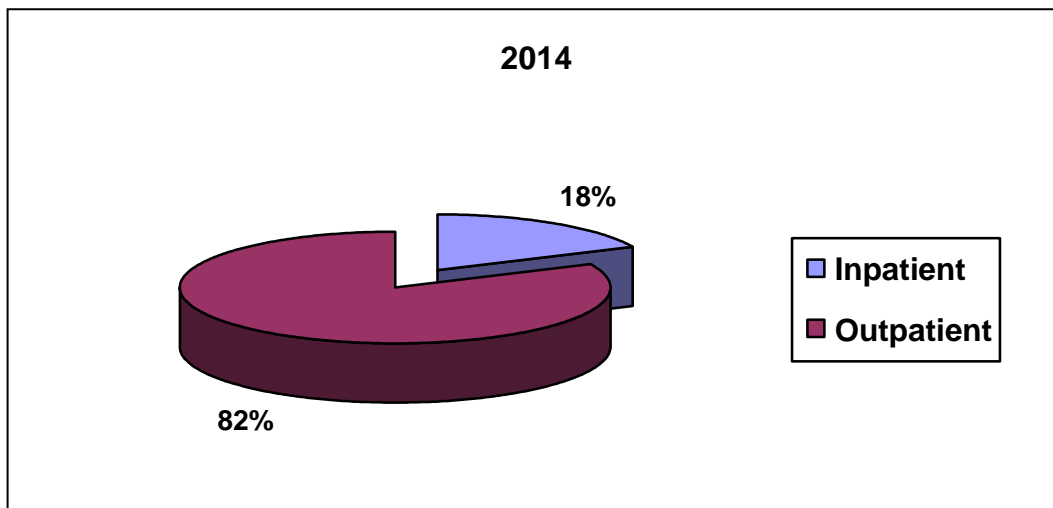
Management's Discussion and Analysis (unaudited)

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 5.8% in 2014. This was attributable to changes in patient volume, rates, and 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 57.2% in 2013 to 58.5% of gross revenue in 2014.
- The following is a graphic illustration of patient revenues by source:



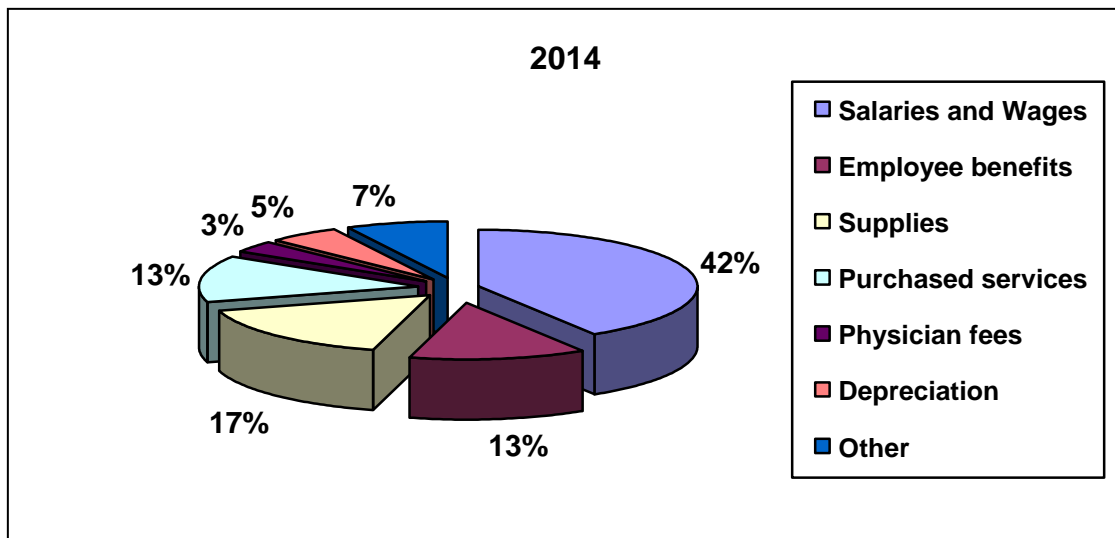
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

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 2013 to 2014 were the result of the following factors:

- Employee benefits increased approximately \$622,000, or 12.2% primarily due to an increase in health insurance claims.
- Supplies increased approximately \$842,000, or 14.3%, primarily as a result of increased patient volumes and increased costs of pharmacy and chemotherapy related drugs.
- Purchased services increased approximately \$80,000, or 1.5%, primarily due to inflation and the outsourcing of certain repairs and maintenance services.
- The following is a graphic illustration of operating expenses by type:



HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

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 2013 to 2014 was primarily due to grant 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		
	2014	As restated	
		2013	2012
Cash provided by (used in):			
Operating activities	\$ 5,571,317	\$ 9,404,189	\$ 3,931,518
Capital and related financing activities	(3,483,679)	(3,613,952)	(2,375,990)
Noncapital financing activities	(775,000)	(875,000)	(1,075,000)
Investing activities	(455,371)	(2,708,868)	(5,439,900)
Total	857,267	2,206,369	(4,959,372)
Cash - beginning of year	4,540,227	2,333,858	7,293,230
Cash - end of year	\$ 5,397,494	\$ 4,540,227	\$ 2,333,858

Capital Asset and Debt Administration

Capital Assets

At December 31, 2014, the Hospital had a total investment of \$43,066,738 in gross capital assets and accumulated depreciation totaled \$32,763,522, resulting in a net carrying value of \$10,303,216.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's Discussion and Analysis (unaudited)

Debt

At December 31, 2014, the Hospital had \$7,040,000 in long-term debt outstanding as compared to \$7,910,000 at December 31, 2013. The Hospital continues to pay down its debt obligations as prescribed in the respective debt agreements. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements. The Hospital entered into a pay-fixed, receivable-variable interest rate swap in 2007 with a fixed rate of 3.942 percent which terminates on December 1, 2021. The fair value of the swap as of December 31, 2014 and 2013 was a liability of \$502,050 and \$580,677, 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:

- Changes in the economy. This may cause volumes to increase, or decrease. Bad debts, charity care, financial mix and utilization could also be impacted.
- Federal and state governments budget changes, which could change the funding for Medicare and Medicaid.
- The Health Insurance Market Place is increasing the patient financial responsibility for receiving care. Also these new plans have restrictive networks resulting in higher out of pocket cost for accessing services out of network. These changes could increase bad debts and charity care.
- The Patient Protection and Affordable Care Act (PPACA) continue to be scrutinized by congress. Changes or delays could have an impact on the Hospital's net patient service revenue going forward.
- 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, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS

	2014	2013
Current assets		
Cash and cash equivalents	\$ 4,626,277	\$ 4,059,545
Assets limited as to use - current portion	280,968	245,256
Patient accounts receivable, net of allowances for uncollectible accounts; \$4,804,067 in 2014 and \$4,280,049 in 2013	5,611,623	5,036,179
Investments	-	500,652
Inventories	423,959	438,918
Prepaid expenses and other current assets	776,985	674,873
Accrued interest receivable	7,876	1,444
	<hr/>	<hr/>
Total current assets	11,727,688	10,956,867
Asset whose use is limited		
Restricted by contributors for capital improvements and other purposes	1,324,050	1,252,129
Principal of permanent endowments	17,473	17,473
Designated by Board for capital improvements and employee benefits	9,967,214	9,580,785
Held by trustee under bond indenture agreements	280,968	245,256
Total assets limited as to use	11,589,705	11,095,643
	<hr/>	<hr/>
Less amounts to meet current obligations	(280,968)	(245,256)
	<hr/>	<hr/>
Total assets limited as to use - noncurrent portion	11,308,737	10,850,387
Capital assets, net	10,303,216	10,787,827
Investments	10,452,370	9,238,169
	<hr/>	<hr/>
Total assets	43,792,011	41,833,250
Deferred outflows	502,050	580,677
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Total assets and deferred outflows	\$ 44,294,061	\$ 42,413,927
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See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current liabilities		
Current portion of long-term debt	\$ 875,000	\$ 870,000
Accounts payable	945,513	1,140,196
Accrued liabilities	2,218,709	1,856,537
Estimated amounts due to third-party payors	113,574	1,300,180
Total current liabilities	<u>4,152,796</u>	<u>5,166,913</u>
Interest rate swap	502,050	580,677
Compensated absences	1,019,677	1,020,757
Long-term debt, net of current portion	<u>6,165,000</u>	<u>7,040,000</u>
Total liabilities	11,839,523	13,808,347
Net position		
Net investment in capital assets	3,263,216	2,877,827
Restricted:		
Expendable for capital improvements and debt service	1,605,018	1,497,385
Nonexpendable permanent endowments	17,473	17,473
Unrestricted	<u>27,568,831</u>	<u>24,212,895</u>
Total net position	<u>32,454,538</u>	<u>28,605,580</u>
Total liabilities and net position	<u>\$ 44,294,061</u>	<u>\$ 42,413,927</u>

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating revenues		
Net patient service revenue	\$ 44,979,540	\$ 42,494,258
Other operating revenue	1,488,130	1,543,527
Total operating revenues	46,467,670	44,037,785
Operating expenses		
Salaries and wages	16,906,495	16,450,660
Employee benefits	5,718,214	5,096,157
Supplies	6,737,349	5,895,826
Purchased services	5,519,349	5,439,270
Physician fees	1,368,630	1,421,533
Depreciation and amortization	2,190,971	2,338,831
Professional fees	266,350	214,486
Utilities	928,688	873,764
Insurance	354,025	330,653
Other	1,408,259	1,445,346
Total operating expenses	41,398,330	39,506,526
Income from operations	5,069,340	4,531,259
Non-operating gains (losses)		
Investment income	267,481	110,711
Grant income	22,933	26,139
Grant expense	(450,000)	-
Interest earnings on restricted assets	179,909	110,893
Interest expense	(305,869)	(353,059)
Gain (loss) on disposal of capital assets	(174,151)	2,088
Other non-operating gains (losses)	14,315	(192,278)
Total non-operating gains (losses)	(445,382)	(295,506)
Transfer to affiliates	(775,000)	(875,000)
Change in net position	3,848,958	3,360,753
Net position - beginning of year	28,605,580	25,244,827
Net position - end of year	\$ 32,454,538	\$ 28,605,580

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 43,217,490	\$ 44,911,901
Cash payments to suppliers for services and goods	(16,870,918)	(15,104,806)
Cash payments to employees and related benefits	(22,263,385)	(21,946,480)
Other operating revenue	1,488,130	1,543,574
Net cash flows from operating activities	5,571,317	9,404,189
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,880,511)	(2,441,781)
Proceeds from disposal of capital assets	-	16,916
Principal payments on bonds	(870,000)	(860,000)
Interest paid	(306,101)	(355,226)
Grants paid	(450,000)	-
Capital grants received	22,933	26,139
Net cash flows from capital and related financing activities	(3,483,679)	(3,613,952)
Cash flows from noncapital financing activities		
Transfers to affiliates	(775,000)	(875,000)
Net cash flows from noncapital financing activities	(775,000)	(875,000)
Cash flow from investing activities		
Income received on investments	447,390	221,604
Income from other non-operating gains	14,315	(192,278)
Change in investments	(917,076)	(2,738,194)
Net cash flows from investing activities	(455,371)	(2,708,868)
Change in cash and cash equivalents	857,267	2,206,369
Cash and cash equivalents - beginning of year	4,540,227	2,333,858
Cash and cash equivalents- end of year	\$ 5,397,494	\$ 4,540,227
Balance sheet classification of cash and cash equivalents		
Current assets - cash	\$ 4,626,277	\$ 4,059,545
Investments	419,065	34,804
Assets limited as to use	352,152	445,878
Total	\$ 5,397,494	\$ 4,540,227
Supplemental disclosure of non cash activities		
Change in interest rate swap and deferred outflows	\$ (78,627)	\$ (316,811)

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Income from operations	\$ 5,069,340	\$ 4,531,259
Adjustments to reconcile income from operations to net cash flows from operating activities:		
Depreciation and amortization	2,190,971	2,338,831
Provision for bad debt	6,168,868	6,485,558
Change in operating assets and liabilities		
Patient accounts receivables	(6,744,312)	(5,447,680)
Inventories	14,959	(69,111)
Prepaid expenses and other current assets	(108,544)	306,251
Accounts payable	(194,683)	302,315
Accrued liabilities and compensated absences	361,324	(399,663)
Estimated amounts due to third-party payors	<u>(1,186,606)</u>	<u>1,356,429</u>
Net cash from operating activities	<u>\$ 5,571,317</u>	<u>\$ 9,404,189</u>

See accompanying notes to consolidated financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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 subsidiaries, Highland District Hospital Foundation, Inc., Highland District Hospital Professional Services Corporation and Highland Joint Township District Hospital Foundation, (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

The Hospital is an acute care facility designated as a Critical Access Hospital 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.

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash 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.

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. Costs of the maintenance and repairs are charged to expense when incurred.

Investments

The Hospital has investments in equities, U.S government asset backed securities, and an interest rate swap agreement, which are all stated at fair value on the accompanying balance sheets. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating gains (losses). Current investments include maturities of one year or less while long-term investments include maturities greater than one year.

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

Income Guarantee

The Organization has entered into an agreement to receive services from an anesthesia group. Under this agreement, the Hospital is required to make payments to the group in excess of amounts earned in the provision of anesthesia services up to the amount of the income guarantee. The guarantee period is for a six month term, which is renewable. The Organization recorded a liability of approximately \$90,000 as of December 31, 2014 and 2013, which is included in accrued expenses and an offsetting asset recorded in prepaid expenses and other current assets.

Compensated Absences

Paid time off is charged to operations when earned. 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. Unused and earned benefits are recorded as a liability in the financial statements.

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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Net Position

Net position of the Organization is classified in four components. Net investment in capital assets 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 for capital improvements and debt service assets 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 position equals the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

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 non-operating activities based on GASB reporting requirements. Peripheral or incidental transactions are reported as non-operating gains and losses.

Federal Income Tax

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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 (\$41,398,330 and \$39,506,526 during 2014 and 2013, respectively), an estimated \$200,000 and \$864,000 arose from providing services to charity patients during 2014 and 2013, 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 Organization's total operating expenses divided by gross patient service revenue. The Organization 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 \$1,043,000 and \$540,000 for 2014 and 2013, respectively, and are reported as net patient service revenue in the financial statements.

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Electronic Health Records (EHR) Incentive Payments

The Organization receives EHR incentive payments under the Medicare program. To qualify for these payments, the Organization must meet “meaningful use” criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Organization’s cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Organization recognized approximately \$408,000 and \$508,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Organization records income at the end of the EHR reporting period in which compliance is received. EHR incentive income is included in other revenue in the consolidated statement of operations and changes in net position. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Organization as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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 31, 2015.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

2. CHANGE IN REPORTING ENTITY

Highland Health Providers Corporation (HHPC), a previously consolidated subsidiary, restructured its organization during 2014. As a result of the restructuring, HHPC has a separate board, separate rate setting powers and the ability to enter financing independently. HHPC is no longer a component unit of the Hospital and the 2014 and 2013 consolidated financial statements exclude HHPC's assets, liabilities, net position, results of its operations and cash flows. The following is a summary of the financial position and activities of HHPC as of and for the year ended December 31, 2013:

Total assets	\$	267,414
Total liabilities		133,234
Total net position		134,180
Total operating revenues		915,130
Total operating and non-operating expenses		1,945,262
Excess of expenses over revenues		(1,030,132)
Transfer from affiliate		875,000
Change in net position		(155,132)

During 2014 and 2013, the Hospital transferred \$775,000 and \$875,000, respectively, to HHPC as shown in the statement of operations and changes in net position.

During 2014, the Hospital entered into a grant agreement with HHPC, whereby HHPC's operating losses, not to exceed \$1,500,000 on an annual basis, will be funded for the next two years with renewal options for successive one year periods. Grant expense for 2014 totaled \$450,000 and is included in the statement of operations and changes in net position.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. government asset backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Interest rate swap agreements: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves.

The Organization's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2014 and 2013.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Accounts payable, estimated third-party payor settlements and accrued expenses: The carrying amount reported in the balance sheet for these items approximates its fair value due to their nearness to maturity.

Debt: The carrying amount reported on the balance sheet for debt approximates its fair value based upon the variable nature of its primary debt.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Asset Backed Securities	\$ -	\$ 18,538,660	\$ -	\$ 18,538,660
Common Stocks - Large Cap	145,744	-	-	145,744
Total	\$ 145,744	\$ 18,538,660	\$ -	\$ 18,684,404
Liabilities:				
Interest Rate Swap Agreements	\$ -	\$ 502,050	\$ -	\$ 502,050

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Asset Backed Securities	\$ -	\$ 17,792,265	\$ -	\$ 17,792,265
Common Stocks - Large Cap	130,256	-	-	130,256
Total	\$ 130,256	\$ 17,792,265	\$ -	\$ 17,922,521
Liabilities:				
Interest Rate Swap Agreements	\$ -	\$ 580,677	\$ -	\$ 580,677

4. DEPOSITS AND INVESTMENTS

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

	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	\$ 5,397,494	\$ 5,397,494	\$ 4,540,227	\$ 4,540,227
Certificates of deposit	2,586,454	2,586,454	2,431,261	2,431,261
U. S. government asset backed securities	18,538,660	18,677,612	17,792,265	17,986,703
Stocks	145,744	5,787	130,256	5,787
Total	\$ 26,668,352	\$ 26,667,347	\$ 24,894,009	\$ 24,963,978
	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 4,626,277	\$ 4,626,277	\$ 4,059,545	\$ 4,059,545
Investments	10,452,370	10,510,485	9,738,821	9,823,231
Assets limited as to use	11,589,705	11,530,585	11,095,643	11,081,202
Total	\$ 26,668,352	\$ 26,667,347	\$ 24,894,009	\$ 24,963,978

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, the Organization had \$5,477,385 and \$4,554,953, 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 asset backed securities 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 1 year	> than 1 year
December 31, 2014			
Certificates of Deposit	\$ 2,586,454	\$ -	\$ 2,586,454
U.S. Government Asset Backed Securities	18,538,660	289,569	18,249,091
Total	<u>\$ 21,125,114</u>	<u>\$ 289,569</u>	<u>\$ 20,835,545</u>

Interest rate risk – The Organization has 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 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2014	2013
Total patient accounts receivable	\$ 18,112,966	\$ 15,241,959
Less allowance for:		
Uncollectible accounts	(4,804,067)	(4,280,049)
Contractual adjustments	(7,697,276)	(5,925,731)
Net patient accounts receivable	\$ 5,611,623	\$ 5,036,179

The mix of accounts receivable and gross revenues from patients and third-party payors in 2014 and 2013 follows:

	2014		2013	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	30%	47%	32%	45%
Medicaid	19%	23%	15%	21%
Self-pay	29%	5%	32%	8%
Commercial and other	22%	25%	21%	26%
	100%	100%	100%	100%

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	2013	Additions	Retirements/ Transfers	2014
Land	\$ 24,937	\$ -	\$ 15,200	\$ 40,137
Land improvements	711,241	-	-	711,241
Buildings and improvements	16,333,854	80,513	(284,903)	16,129,464
Equipment	26,010,689	1,781,343	(1,735,798)	26,056,234
Construction in progress	111,007	18,655	-	129,662
Total capital assets	43,191,728	1,880,511	(2,005,501)	43,066,738
Less accumulated depreciation				
Land improvements	659,003	5,750	-	664,753
Buildings and improvements	11,172,477	728,843	(242,516)	11,658,804
Equipment	20,572,421	1,456,378	(1,588,834)	20,439,965
Total accumulated depreciation	32,403,901	2,190,971	(1,831,350)	32,763,522
Capital assets, net	\$ 10,787,827	\$ (310,460)	\$ (174,151)	\$ 10,303,216

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Capital asset activity for the year ended December 31, 2013 was as follows:

	2012	Additions	Retirements/ Transfers	2013
Land	\$ 24,937	\$ -	\$ -	\$ 24,937
Land improvements	711,241	-	-	711,241
Buildings and improvements	16,221,986	130,711	(18,843)	16,333,854
Equipment	24,427,075	2,218,938	(635,324)	26,010,689
Construction in progress	35,791	92,132	(16,916)	111,007
Total capital assets	41,421,030	2,441,781	(671,083)	43,191,728
Less accumulated depreciation				
Land improvements	653,018	5,985	-	659,003
Buildings and improvements	10,463,092	721,953	(12,568)	11,172,477
Equipment	19,605,215	1,610,893	(643,687)	20,572,421
Total accumulated depreciation	30,721,325	2,338,831	(656,255)	32,403,901
Capital assets, net	\$ 10,699,705	\$ 102,950	\$ (14,828)	\$ 10,787,827

7. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 70% 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.

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 subject to the federal sequestration cuts. Medicare cost reports are final settled through 2012.

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 2007.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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.

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, 2014 and 2013, the Organization recognized a gain of approximately \$994,000 and \$503,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology. These amounts are reported within net patient service revenue in the financial statements.

8. LONG-TERM DEBT

The Organization is bound by various operational and financial covenants, including maintaining a minimum debt service ratio of 1.25 to 1, at least 60 days cash on hand, and the maximum funded indebtedness to unrestricted fund balance must be less than 1.1 to 1. The Organization believes that it is in compliance with these covenants.

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 0.21% at December 31, 2014. The debt is collateralized by a bank letter of credit which expires on July 1, 2016.

\$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 bonds are payable in varying annual installments beginning July 5, 2007. The bonds mature December 1, 2021. The interest rate on the variable rate debt was 0.19% at December 31, 2014. The debt is collateralized by a bank letter of credit which expires on July 1, 2016.

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Long-term debt activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 7,910,000	\$ -	\$ (870,000)	\$ 7,040,000	\$ 875,000

Long-term debt activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 8,770,000	\$ -	\$ (860,000)	\$ 7,910,000	\$ 870,000

The following is a schedule of bond and loan principal and interest payments as of December 31, 2014:

	Bonds and Loans Payable	Bonds and Loans Interest	Interest Rate Swap, Net
2015	\$ 875,000	\$ 214,039	\$ 176,855
2016	880,000	195,090	161,559
2017	890,000	146,033	116,779
2018	890,000	127,463	101,825
2019	900,000	99,442	77,988
thereafter	2,605,000	124,597	78,422
Total payments	\$ 7,040,000	\$ 906,664	\$ 713,428

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

Contract

The Organization has one interest rate swap agreement in effect at December 31, 2014 relating to the 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 that are reflected at fair value in the balance sheets at \$502,050 and \$580,677 at December 31, 2014 and 2013, respectively. The intention of the swap agreement is to effectively change the Organization's variable interest rate on the bonds to a fixed rate of 3.942%.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swap as of December 31, 2014 are shown below. The notional amount of the swap matches the principal amount of the associated debt and declines with the principal amortization on the bonds.

<u>Associated Bond Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>	<u>Counterparty Credit Rating</u>
2007 Hospital Facilities Revenue Refunding Bonds	\$ 4,740,000	6/7/2007	3.942%	0.19%	\$ (502,050)	December 1, 2021	Aa3/A+/A+

As of December 31, 2014, 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 Aa3 by Moody’s Investors Service, A+ by Standard and Poor’s, and A+ by Fitch Ratings.

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, 2014, 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 8. As rates vary, variable-rate bond interest payments and net swap payments will vary.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

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 sheets while the swap remains an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

	<u>2014</u>	<u>2013</u>
Deferred outflows	<u>\$ 502,050</u>	<u>\$ 580,677</u>
	Liabilities	
	<u>2014</u>	<u>2013</u>
Interest rate swap agreements	<u>\$ 502,050</u>	<u>\$ 580,677</u>

10. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Payroll and related amounts	\$ 1,616,604	\$ 1,332,660
Workers' compensation premiums	182,605	130,267
Pension	328,477	302,355
Income guarantee	90,000	90,000
Interest	1,023	1,255
Total accrued liabilities	<u>\$ 2,218,709</u>	<u>\$ 1,856,537</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

11. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2014</u>	<u>2013</u>
Revenue:		
Inpatient services:		
Routine services	\$ 8,178,138	\$ 8,653,982
Ancillary services	11,949,088	12,552,527
Outpatient services	<u>88,325,662</u>	<u>78,029,940</u>
Total patient revenue	108,452,888	99,236,449
Revenue deductions:		
Provision for contractual allowances	56,780,386	48,085,415
Provision for bad debt allowances	6,168,868	6,485,558
Provision for charity care	<u>524,094</u>	<u>2,171,218</u>
Total revenue deductions	<u>63,473,348</u>	<u>56,742,191</u>
Total net patient service revenue	<u>\$ 44,979,540</u>	<u>\$ 42,494,258</u>

12. 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 No. 45.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014 and 2013, 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 2.0% and 1.0% during calendar year 2014 and 2013, respectively. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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:

<u>Year</u>	<u>Contribution</u>
2014	\$ 1,968,000
2013	\$ 1,892,000
2012	\$ 1,879,000

Organization contributions made to fund post-employment healthcare benefits approximated \$141,000, \$135,000, and \$537,000 for 2014, 2013 and 2012, respectively, which are included in the table above.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under Senate Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

13. 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 \$70,000. Total health expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$2,422,502 and \$2,138,090 in 2014 and 2013, respectively.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

14. BLENDED COMPONENT UNIT

The consolidated financial statements include Highland District Hospital Foundation, Highland District Hospital Professional Services Corporation and Highland Joint Township District Hospital Foundation, all separate entities organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the entities as of and for the year ended December 31, 2014:

	HDH Foundation	PSC	HJTDH Foundation	Blended Component Unit Total
Assets:				
Total current assets	\$ 525	\$ 625,696	\$ 67,396	\$ 693,617
Total assets limited as to use - noncurrent portion	305,331	-	260,644	565,975
Capital assets, net	-	152,015	-	152,015
Total assets	<u>\$ 305,856</u>	<u>\$ 777,711</u>	<u>\$ 328,040</u>	<u>\$ 1,411,607</u>
Liabilities:				
Total current liabilities	\$ -	\$ 461,704	\$ -	\$ 461,704
Compensated absences	-	9,659	-	9,659
Total liabilities	<u>\$ -</u>	<u>\$ 471,363</u>	<u>\$ -</u>	<u>\$ 471,363</u>
Net position:				
Net investment in capital assets	\$ -	\$ 152,015	\$ -	\$ 152,015
Restricted:				
Expendable for capital improvements and debt service	-	-	243,171	243,171
Nonexpendable permanent endowments	305,856	154,333	67,396	527,585
Unrestricted	<u>\$ 305,856</u>	<u>\$ 306,348</u>	<u>\$ 328,040</u>	<u>\$ 940,244</u>
Total liabilities and net position	<u>\$ 305,856</u>	<u>\$ 777,711</u>	<u>\$ 328,040</u>	<u>\$ 1,411,607</u>
Operating revenues				
Total operating revenues	<u>\$ 2,086</u>	<u>\$ 4,339,433</u>	<u>\$ 142,602</u>	<u>\$ 4,484,121</u>
Operating expenses				
Total operating expenses	<u>-</u>	<u>5,862,571</u>	<u>100,925</u>	<u>5,963,496</u>
Income (Loss) from operations	2,086	(1,523,138)	41,677	(1,479,375)
Non-operating gains (losses)				
Total non-operating gains (losses)	<u>-</u>	<u>7,960</u>	<u>357</u>	<u>8,317</u>
Excess of revenue over expenses (expenses over revenue)	2,086	(1,515,178)	42,034	(1,471,058)
Transfer from (to) affiliates	200,000	1,400,000	-	1,600,000
Change in net position	202,086	(115,178)	42,034	128,942
Net position - beginning of year	103,770	421,526	286,006	811,302
Net position - end of year	<u>\$ 305,856</u>	<u>\$ 306,348</u>	<u>\$ 328,040</u>	<u>\$ 940,244</u>
Cash provided by (used in):				
Operating activities	\$ 2,086	\$ (1,471,218)	\$ 42,034	\$ (1,427,098)
Capital and related financing activities	200,000	1,434,253	-	1,634,253
Investing activities	(202,077)	-	(58,675)	(260,752)
Total	<u>9</u>	<u>(36,965)</u>	<u>(16,641)</u>	<u>(53,597)</u>
Cash - beginning of year	516	179,080	83,989	263,585
Cash - end of year	<u>\$ 525</u>	<u>\$ 142,115</u>	<u>\$ 67,348</u>	<u>\$ 209,988</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

The following is a summary of the financial position and activities of the entities as of and for the year ended December 31, 2013:

	HDH Foundation	PSC	HJTDH Foundation	Blended Component Unit Total
Assets:				
Total current assets	\$ 516	\$ 419,181	\$ 83,989	\$ 503,686
Total assets limited as to use - noncurrent portion	103,254	-	202,017	305,271
Capital assets, net	-	382,907	-	382,907
Total assets	\$ 103,770	\$ 802,088	\$ 286,006	\$ 1,191,864
Liabilities:				
Total current liabilities	\$ -	\$ 371,859	\$ -	\$ 371,859
Compensated absences	-	8,703	-	8,703
Total liabilities	\$ -	\$ 380,562	\$ -	\$ 380,562
Net position:				
Net investment in capital assets	\$ -	\$ 382,907	\$ -	\$ 382,907
Restricted:				
Expendable for capital improvements and debt service	-	-	184,544	184,544
Nonexpendable permanent endowments	103,770	38,619	83,989	226,378
Unrestricted	\$ 103,770	\$ 421,526	\$ 286,006	\$ 811,302
Total net position				
Total liabilities and net position	\$ 103,770	\$ 802,088	\$ 286,006	\$ 1,191,864
 Operating revenues				
Total operating revenues	\$ 660	\$ 3,357,343	\$ 344,725	\$ 3,702,728
Operating expenses				
Total operating expenses	-	5,673,127	389,741	6,062,868
Income (Loss) from operations	660	(2,315,784)	(45,016)	(2,360,140)
Non-operating gains (losses)				
Total non-operating gains (losses)	-	534	485	1,019
Excess of revenue over expenses (expenses over revenue)	660	(2,315,250)	(44,531)	(2,359,121)
Transfer from (to) affiliates	-	1,925,000	-	1,925,000
Change in net position	660	(390,250)	(44,531)	(434,121)
Net position - beginning of year	103,110	811,776	330,537	1,245,423
Net position - end of year	\$ 103,770	\$ 421,526	\$ 286,006	\$ 811,302
 Cash provided by (used in):				
Operating activities	\$ 660	\$ (31,637)	\$ (36,870)	\$ (67,847)
Capital and related financing activities	-	46,128	-	46,128
Investing activities	(618)	-	26,996	26,378
Total	42	14,491	(9,874)	4,659
 Cash - beginning of year	474	164,589	93,863	258,926
Cash - end of year	\$ 516	\$ 179,080	\$ 83,989	\$ 263,585

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

15. 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

16. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
 REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
 GOVERNMENT AUDITING STANDARDS**

Highland County Joint Township Hospital District
 Highland County
 1275 North High St.
 Hillsboro, Ohio 45133

To the Board of Trustees and Hospital Board of Governors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of Highland County Joint Township Hospital District (the Organization) as of and for the year ended December 31, 2014, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated March 31, 2015.

As discussed in Note 2 to the consolidated financial statements, Highland Health Providers Corporation (HHPC) restructured its organization. As a result, HHPC is not a component unit of the Hospital and the consolidated financial statements exclude HHPC's assets, liabilities, net position, results of its operations and cash flows. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the consolidated financial statements, but not to the extent necessary to opine on the effectiveness of the Organization's internal control. Accordingly, we have not opined on it.

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS (continued)**

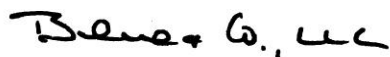
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbus, Ohio
March 31, 2015

SUPPLEMENTARY INFORMATION

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2014

ASSETS AND DEFERRED OUTFLOWS

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 4,416,289	\$ 525	\$ 142,115	\$ 67,348	\$ -	\$ 4,626,277
Assets limited as to use - current portion	280,968	-	-	-	-	280,968
Patient accounts receivable - net	5,244,787	-	366,836	-	-	5,611,623
Inventories	423,959	-	-	-	-	423,959
Prepaid expenses and other current assets	660,240	-	116,745	-	-	776,985
Accrued interest receivable	7,828	-	-	48	-	7,876
Notes and grants receivable - current portion	4,061	-	-	-	(4,061)	-
Total current assets	11,038,132	525	625,696	67,396	(4,061)	11,727,688
Assets limited as to use						
Restricted by contributors for capital improvements and other purposes	1,080,879	-	-	243,171	-	1,324,050
Principal of permanent endowments	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	9,661,883	305,331	-	-	-	9,967,214
Held by trustee under bond indenture agreements	280,968	-	-	-	-	280,968
Total assets limited as to use	11,023,730	305,331	-	260,644	-	11,589,705
Less amounts to meet current obligations	(280,968)	-	-	-	-	(280,968)
Total assets limited as to use - noncurrent portion	10,742,762	305,331	-	260,644	-	11,308,737
Capital assets - net	10,151,201	-	152,015	-	-	10,303,216
Investments	10,452,370	-	-	-	-	10,452,370
Total assets	42,384,465	305,856	777,711	328,040	(4,061)	43,792,011
Deferred outflows	502,050	-	-	-	-	502,050
Total assets and deferred outflows	\$ 42,886,515	\$ 305,856	\$ 777,711	\$ 328,040	\$ (4,061)	\$ 44,294,061

See report of independent auditors.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2014

LIABILITIES AND NET POSITION

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminations	Total
Current liabilities						
Current portion of long-term debt	\$ 875,000	\$ -	\$ -	\$ -	\$ -	\$ 875,000
Accounts payable	754,502	-	191,011	-	-	945,513
Accrued liabilities	1,952,077	-	270,693	-	(4,061)	2,218,709
Estimated amounts due to third-party payors	113,574	-	-	-	-	113,574
Total current liabilities	3,695,153	-	461,704	-	(4,061)	4,152,796
Interest rate swap	502,050	-	-	-	-	502,050
Compensated absences	1,010,018	-	9,659	-	-	1,019,677
Long-term debt - net of current portion	6,165,000	-	-	-	-	6,165,000
Total liabilities	11,372,221	-	471,363	-	(4,061)	11,839,523
Net position						
Net investment in capital assets	3,111,201	-	152,015	-	-	3,263,216
Restricted:						
Expendable for capital improvements and debt service	1,361,847	-	-	243,171	-	1,605,018
Nonexpendable permanent endowments	-	-	-	17,473	-	17,473
Unrestricted	27,041,246	305,856	154,333	67,396	-	27,568,831
Total net position	31,514,294	305,856	306,348	328,040	-	32,454,538
Total liabilities and net position	\$ 42,886,515	\$ 305,856	\$ 777,711	\$ 328,040	\$ (4,061)	\$ 44,294,061

See report of independent auditors.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2013

ASSETS AND DEFERRED OUTFLOWS

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminations	Total
Current assets						
Cash and cash equivalents	\$ 3,795,960	\$ 516	\$ 179,080	\$ 83,989	\$ -	\$ 4,059,545
Assets limited as to use - current portion	245,256	-	-	-	-	245,256
Patient accounts receivable - net	4,890,075	-	146,104	-	-	5,036,179
Investments	500,652	-	-	-	-	500,652
Inventories	438,918	-	-	-	-	438,918
Prepaid expenses and other current assets	622,204	-	93,997	-	(41,328)	674,873
Accrued interest receivable	1,444	-	-	-	-	1,444
Notes and grants receivable - current portion	24,054	-	-	-	(24,054)	-
	10,518,563	516	419,181	83,989	(65,382)	10,956,867
Total current assets						
Assets limited as to use						
Restricted by contributors for capital improvements and other purposes	1,067,585	-	-	184,544	-	1,252,129
Principal of permanent endowments	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	9,477,531	103,254	-	-	-	9,580,785
Held by trustee under bond indenture agreements	245,256	-	-	-	-	245,256
	10,790,372	103,254	-	202,017	-	11,095,643
Total assets limited as to use						
Less amounts to meet current obligations	(245,256)	-	-	-	-	(245,256)
	10,545,116	103,254	-	202,017	-	10,850,387
Total assets limited as to use - noncurrent portion						
Capital assets - net	10,404,920	-	382,907	-	-	10,787,827
Investments	9,238,169	-	-	-	-	9,238,169
Total assets	40,706,768	103,770	802,088	286,006	(65,382)	41,833,250
Deferred outflows	580,677	-	-	-	-	580,677
Total assets and deferred outflows	\$ 41,287,445	\$ 103,770	\$ 802,088	\$ 286,006	\$ (65,382)	\$ 42,413,927

See report of independent auditors.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2013

LIABILITIES AND NET POSITION

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminations	Total
Current liabilities						
Current portion of long-term debt	\$ 870,000	\$ -	\$ -	\$ -	\$ -	\$ 870,000
Accounts payable	1,005,394	-	176,130	-	(41,328)	1,140,196
Accrued liabilities	1,684,862	-	195,729	-	(24,054)	1,856,537
Estimated amounts due to third-party payors	1,300,180	-	-	-	-	1,300,180
Total current liabilities	4,860,436	-	371,859	-	(65,382)	5,166,913
Interest rate swap	580,677	-	-	-	-	580,677
Compensated absences	1,012,054	-	8,703	-	-	1,020,757
Long-term debt - net of current portion	7,040,000	-	-	-	-	7,040,000
Total liabilities	13,493,167	-	380,562	-	(65,382)	13,808,347
Net position						
Net investment in capital assets	2,494,920	-	382,907	-	-	2,877,827
Restricted:						
Expendable for capital improvements and debt service	1,312,841	-	-	184,544	-	1,497,385
Nonexpendable permanent endowments	-	-	-	17,473	-	17,473
Unrestricted	23,986,517	103,770	38,619	83,989	-	24,212,895
Total net position	27,794,278	103,770	421,526	286,006	-	28,605,580
Total liabilities and net position	\$ 41,287,445	\$ 103,770	\$ 802,088	\$ 286,006	\$ (65,382)	\$ 42,413,927

See report of independent auditors.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminating	Total
Operating revenues						
Net patient service revenue	\$ 40,757,960	\$ -	\$ 4,231,045	\$ -	\$ (9,465)	\$ 44,979,540
Other operating revenue	1,366,752	2,086	108,388	142,602	(131,698)	1,488,130
Total operating revenues	<u>42,124,712</u>	<u>2,086</u>	<u>4,339,433</u>	<u>142,602</u>	<u>(141,163)</u>	<u>46,467,670</u>
Operating expenses						
Salaries and wages	14,125,533	-	2,780,962	-	-	16,906,495
Employee benefits	5,112,998	-	605,216	-	-	5,718,214
Supplies	6,547,009	-	136,146	54,194	-	6,737,349
Purchased services	4,099,267	-	1,460,648	39,875	(80,441)	5,519,349
Physician fees	1,367,335	-	-	1,295	-	1,368,630
Depreciation and amortization	1,994,332	-	196,639	-	-	2,190,971
Professional fees	266,350	-	-	-	-	266,350
Utilities	854,914	-	73,774	-	-	928,688
Insurance	274,821	-	79,204	-	-	354,025
Other	933,438	-	529,982	5,561	(60,722)	1,408,259
Total operating expenses	<u>35,575,997</u>	<u>-</u>	<u>5,862,571</u>	<u>100,925</u>	<u>(141,163)</u>	<u>41,398,330</u>
Income (loss) from operations	6,548,715	2,086	(1,523,138)	41,677	-	5,069,340
Non-operating gains (losses)						
Investment income	267,124	-	-	357	-	267,481
Grant income	22,933	-	-	-	-	22,933
Grant expense	(450,000)	-	-	-	-	(450,000)
Interest on restricted assets	179,909	-	-	-	-	179,909
Interest expense	(305,869)	-	-	-	-	(305,869)
Gain (loss) on disposal of capital assets	(124,412)	-	(49,739)	-	-	(174,151)
Other non-operating gains (losses)	(43,384)	-	57,699	-	-	14,315
Total non-operating gains (losses)	<u>(453,699)</u>	<u>-</u>	<u>7,960</u>	<u>357</u>	<u>-</u>	<u>(445,382)</u>
Excess of revenue over expenses (expenses over revenues)	6,095,016	2,086	(1,515,178)	42,034	-	4,623,958
Transfer from (to) affiliates	<u>(2,375,000)</u>	<u>200,000</u>	<u>1,400,000</u>	<u>-</u>	<u>-</u>	<u>(775,000)</u>
Change in net position	3,720,016	202,086	(115,178)	42,034	-	3,848,958
Net position - beginning of year	<u>27,794,278</u>	<u>103,770</u>	<u>421,526</u>	<u>286,006</u>	<u>-</u>	<u>28,605,580</u>
Net position - end of year	<u>\$ 31,514,294</u>	<u>\$ 305,856</u>	<u>\$ 306,348</u>	<u>\$ 328,040</u>	<u>\$ -</u>	<u>\$ 32,454,538</u>

See report of independent auditors.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Hospital	HDH Foundation	PSC	HJTDH Foundation	Eliminating	Total
Operating revenues						
Net patient service revenue	\$ 39,222,755	\$ -	\$ 3,299,616	\$ -	\$ (28,113)	\$ 42,494,258
Other operating revenue	1,544,312	660	57,727	344,725	(403,897)	1,543,527
Total operating revenue	<u>40,767,067</u>	<u>660</u>	<u>3,357,343</u>	<u>344,725</u>	<u>(432,010)</u>	<u>44,037,785</u>
Operating expenses						
Salaries and wages	13,805,009	-	2,645,651	-	-	16,450,660
Employee benefits	4,540,648	-	555,509	-	-	5,096,157
Supplies	5,733,226	-	132,421	30,179	-	5,895,826
Purchased services	3,935,756	-	1,536,965	50,717	(84,168)	5,439,270
Physician fees	1,417,913	-	-	3,620	-	1,421,533
Depreciation and amortization	2,237,749	-	101,082	-	-	2,338,831
Professional fees	214,486	-	-	-	-	214,486
Utilities	793,301	-	80,463	-	-	873,764
Insurance	226,858	-	103,795	-	-	330,653
Other	970,722	-	517,241	305,225	(347,842)	1,445,346
Total operating expenses	<u>33,875,668</u>	<u>-</u>	<u>5,673,127</u>	<u>389,741</u>	<u>(432,010)</u>	<u>39,506,526</u>
Income (loss) from operations	6,891,399	660	(2,315,784)	(45,016)	-	4,531,259
Non-operating gains (losses)						
Investment income	110,226	-	-	485	-	110,711
Capital grants	26,139	-	-	-	-	26,139
Interest on restricted assets	110,893	-	-	-	-	110,893
Interest expense	(353,059)	-	-	-	-	(353,059)
Gain (loss) on disposal of capital assets	2,088	-	-	-	-	2,088
Other non-operating gains (losses)	(192,812)	-	534	-	-	(192,278)
Total non-operating gains (losses)	<u>(296,525)</u>	<u>-</u>	<u>534</u>	<u>485</u>	<u>-</u>	<u>(295,506)</u>
Excess of revenue over expenses (expenses over revenues)	6,594,874	660	(2,315,250)	(44,531)	-	4,235,753
Transfer to affiliates	<u>(2,800,000)</u>	<u>-</u>	<u>1,925,000</u>	<u>-</u>	<u>-</u>	<u>(875,000)</u>
Change in net position	3,794,874	660	(390,250)	(44,531)	-	3,360,753
Net position - beginning of year	<u>23,999,404</u>	<u>103,110</u>	<u>811,776</u>	<u>330,537</u>	<u>-</u>	<u>25,244,827</u>
Net position - end of year	<u>\$ 27,794,278</u>	<u>\$ 103,770</u>	<u>\$ 421,526</u>	<u>\$ 286,006</u>	<u>\$ -</u>	<u>\$ 28,605,580</u>

See report of independent auditors.

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Dave Yost • Auditor of State

HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

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
JUNE 23, 2015**