# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Mary Taylor, CPA
Auditor of State

Board of Trustees and Hospital Board of Governors
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, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 10, 2010

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# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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DECEMBER 31, 2009 AND 2008

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Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
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# REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Highland County Joint Township Hospital District (the Hospital) as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consoldiated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2009 and 2008, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 12, 2010 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when assessing the results of our audits.

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

Blue & Co., LLC

July 12, 2010

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, 2009 and 2008. The financial statements reflect consolidated information for the Hospital and blended component units, therefore, management's discussion and analysis will focus on the consolidated financial statements. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

## Using This Annual Report

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

## Financial Highlights

The Hospital's overall financial position improved during the year ended December 31, 2009. Total assets increased $880,161 in 2009 while total liabilities decreased $1,200,444. Fair value of the interest rate swap increased $275,890. Net assets increased $2,356,500, or 12.1%, in 2009. The increase in net assets resulted primarily from growth in revenues outpacing the growth of operating expenses.

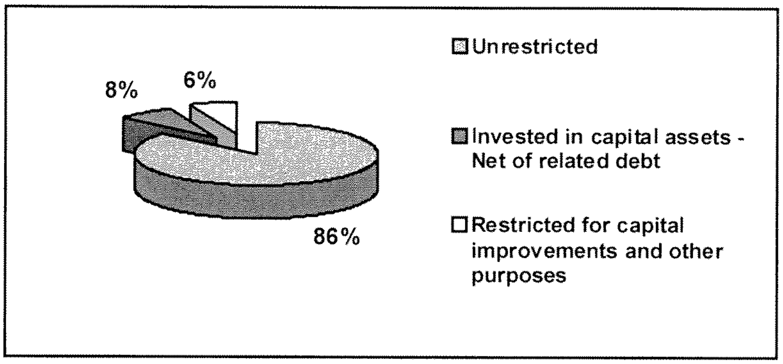
## The Balance Sheet and Statement of Operations and Changes in Net Assets

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

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

**The Hospital's Net Assets**

The following chart provides a breakdown of net assets by category for the year ended December 31, 2009.




For the year ended December 31, 2009, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of $2,356,500 compared to a $1,414,470 increase in the previous year.

## Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2009, 2008 and 2007:

| | December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Assets:** | | | |
| Current assets | $ 15,139,869 | $ 15,906,395 | $ 17,029,368 |
| Noncurrent assets | 11,002,925 | 8,112,810 | 5,849,100 |
| Capital assets | 13,596,053 | 14,839,481 | 14,830,414 |
| Total assets | $ 39,738,847 | $ 38,858,686 | $ 37,708,882 |
| **Liabilities:** | | | |
| Current liabilities | $ 5,707,073 | $ 6,016,506 | $ 5,692,182 |
| Long-term liabilities | 11,644,167 | 12,535,178 | 13,622,807 |
| Total liabilities | $ 17,351,240 | $ 18,551,684 | $ 19,314,989 |
| Interest rate swap | $ 593,505 | $ 869,400 | $ 370,761 |
| **Net assets:** | | | |
| Invested in capital assets - net of debt | $ 1,770,674 | $ 2,183,207 | $ 1,386,052 |
| Restricted assets | 1,939,436 | 1,918,750 | 1,120,166 |
| Unrestricted | 18,083,992 | 15,335,645 | 15,516,914 |
| Total net assets | $ 21,794,102 | $ 19,437,602 | $ 18,023,132 |

## Operating Results and Changes in the Hospital's Net Assets

### *Table 2: Operating Results and Changes in Net Assets*

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Operating revenues** | | | |
| Net patient service revenue | $ 46,004,039 | $ 44,136,162 | $ 43,977,443 |
| Other operating revenue | 830,930 | 853,671 | 701,492 |
| Total operating revenues | 46,834,969 | 44,989,833 | 44,678,935 |
| **Operating expenses** | | | |
| Salaries and wages | 18,176,971 | 18,023,753 | 19,286,255 |
| Employee benefits | 6,482,335 | 6,317,884 | 6,457,125 |
| Supplies | 7,376,023 | 6,720,538 | 6,100,842 |
| Purchased services | 4,961,321 | 4,793,310 | 4,257,777 |
| Physician fees | 1,771,345 | 1,473,744 | 1,764,401 |
| Depreciation and amortization | 2,613,753 | 2,367,089 | 2,428,521 |
| Professional fees | 188,083 | 179,957 | 238,848 |
| Utilities | 1,005,038 | 1,065,918 | 897,678 |
| Insurance | 435,623 | 571,112 | 619,975 |
| Other | 1,161,385 | 1,046,070 | 1,266,486 |
| Total operating expenses | 44,171,877 | 42,559,375 | 43,317,908 |
| **Income from operations** | 2,663,092 | 2,430,458 | 1,361,027 |
| **Nonoperating gains (losses)** | | | |
| Investment income | 175,465 | 124,261 | 554,322 |
| Capital grants | 35,953 | 53,765 | 13,817 |
| Interest earned on restricted assets | 127,904 | 221,768 | 53,208 |
| Interest expense | (951,561) | (963,955) | (818,383) |
| Other nonoperating gains | 29,757 | 46,812 | (32,658) |
| Total nonoperating gains (losses) | (582,482) | (517,349) | (229,694) |
| **Excess of revenue over expenses** | 2,080,610 | 1,913,109 | 1,131,333 |
| **Change in interest rate swap** | 275,890 | (498,639) | (370,761) |
| **Change in net assets** | 2,356,500 | 1,414,470 | 760,572 |
| **Net assets - beginning of year** | 19,437,602 | 18,023,132 | 17,262,560 |
| **Net assets - end of year** | $ 21,794,102 | $ 19,437,602 | $ 18,023,132 |

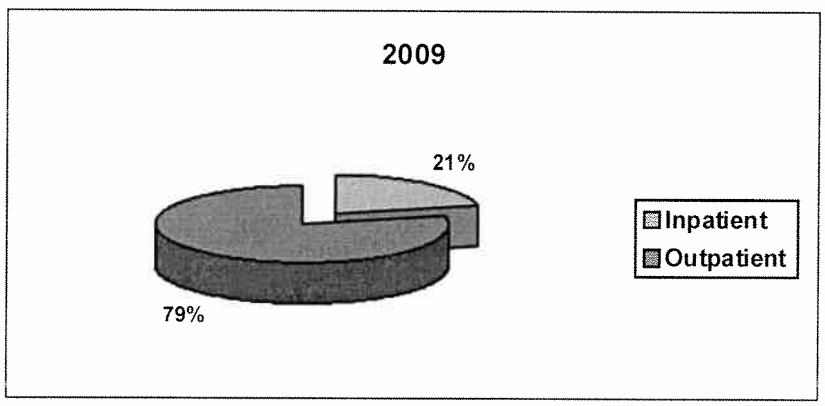
## Operating Revenues

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 4.2% in 2009. This was attributable to a modest increase in third-party payments and changes in patient volumes. 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 48% in 2008 to 51% of gross revenue in 2009.

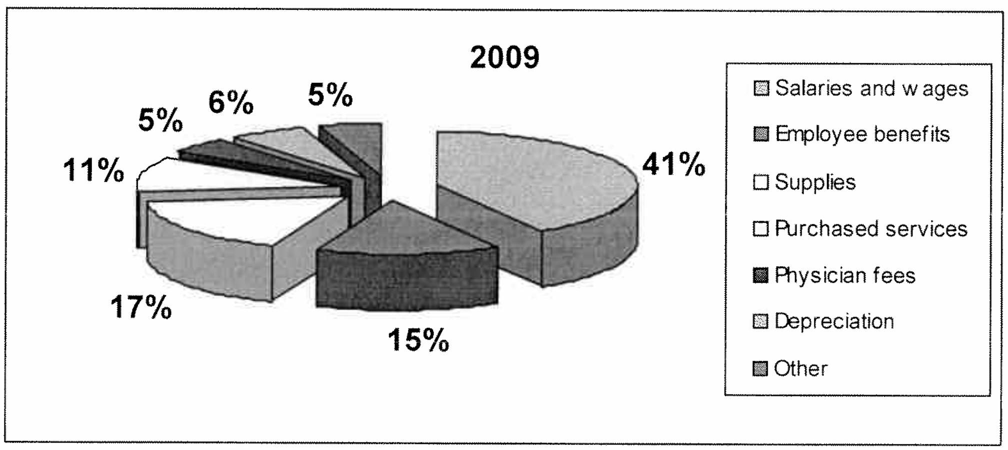
- The following is a graphic illustration of patient revenues by source:



**Operating Expenses**

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The following operating expense changes from 2008 to 2009, as a percentage of total expenses, were the result of the following factors:

- Salary and wages as a percentage of total expenses decreased 1.2% due primarily to decreases in staffing through management of full time equivalents.
- Benefits expense as a percentage of total expenses decreased 0.2% primarily due to decreases in full time equivalents.
- Supplies expenses as a percentage of total expenses increased 0.9% due to inflationary pressures in supplies.
- The following is a graphic illustration of operating expenses by type:



## Non-operating Revenue

Non-operating revenue and expenses 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 2008 to 2009 was primarily due decreased investment and interest income.

## 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 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Cash provided by (used in): | | | |
| Operating and nonoperating activities | $ 4,147,962 | $ 5,613,941 | $ 5,628,469 |
| Capital and related financing activities | (3,075,243) | (4,017,386) | (4,043,573) |
| Investing activities | 2,511,771 | (263,547) | (2,410,735) |
| Total | 3,584,490 | 1,333,008 | (825,839) |
| Cash - beginning of year | 11,535,854 | 10,202,846 | 11,028,685 |
| Cash - end of year | $ 15,120,344 | $ 11,535,854 | $ 10,202,846 |

## Capital Asset and Debt Administration

### Capital Assets

At December 31, 2009, the Hospital had $37,377,493 invested in capital assets, net of accumulated depreciation of $23,781,440. Depreciation expense for 2009 was $2,553,703 compared to $2,305,121 for 2008.

### Debt

At December 31, 2009, the Hospital had $11,825,379 in long-term debt outstanding as compared to $12,656,274 at December 31, 2008 and $13,444,362 at December 31, 2007. The Hospital continues to pay down its debt obligations as prescribed in the debt schedules. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

### Economic Factors that Will Affect the Future

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

### Contacting the 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, 2009 AND 2008

## ASSETS

| | 2009 | 2008 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 7,542,089 | $ 9,078,866 |
| Assets limited as to use - current portion | 272,862 | 234,855 |
| Patient accounts receivable, net of allowances for uncollectible accounts; $3,719,733 in 2009 and $2,597,851 in 2008 | 5,945,700 | 5,093,571 |
| Inventories | 407,336 | 493,976 |
| Prepaid expenses and other current assets | 956,059 | 930,232 |
| Accrued interest receivable | 15,823 | 29,340 |
| Notes and grants receivable - current portion | - | 45,555 |
| Total current assets | 15,139,869 | 15,906,395 |
| **Asset whose use is limited** | | |
| Restricted by contributors for capital improvements and other purposes | 1,206,095 | 1,185,409 |
| Principal of permanent endowments | 17,473 | 17,473 |
| Designated by Board for capital improvements and employee benefits | 9,119,682 | 5,660,917 |
| Held by trustee under bond indenture agreements | 715,868 | 715,868 |
| Total assets limited as to use | 11,059,118 | 7,579,667 |
| Less amounts to meet current obligations | (272,862) | (234,855) |
| Total assets limited as to use - noncurrent portion | 10,786,256 | 7,344,812 |
| **Capital assets** | 13,596,053 | 14,839,481 |
| **Other assets** | | |
| Notes and grants receivable - net of current portion | - | 491,264 |
| Other assets | 57,000 | 93,000 |
| Unamortized financing cost - net | 159,669 | 183,734 |
| Total other assets | 216,669 | 767,998 |
| Total assets | $ 39,738,847 | $ 38,858,686 |

*See accompanying notes to combined financial statement.*

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

## LIABILITIES AND NET ASSETS

| | 2009 | 2008 |
|---|---|---|
| **Current liabilities** | | |
| Current portion of long-term debt | $ 1,149,584 | $ 1,129,583 |
| Accounts payable | 865,244 | 1,867,825 |
| Accrued liabilities | 1,925,690 | 1,860,101 |
| Estimated amounts due to third-party payors | 1,766,555 | 1,158,997 |
| Total current liabilities | 5,707,073 | 6,016,506 |
| **Compensated absences** | 968,372 | 1,008,487 |
| **Long-term debt, net of current portion** | 10,675,795 | 11,526,691 |
| Total liabilities | 17,351,240 | 18,551,684 |
| **Interest rate swap** | 593,505 | 869,400 |
| **Net assets** | | |
| Invested in capital assets - net of related debt | 1,770,674 | 2,183,207 |
| Restricted: | | |
| Expendable for capital improvements and debt service | 1,921,963 | 1,901,277 |
| Nonexpendable permanent endowments | 17,473 | 17,473 |
| Unrestricted | 18,083,992 | 15,335,645 |
| Total net assets | 21,794,102 | 19,437,602 |
| Total liabilities and net assets | $ 39,738,847 | $ 38,858,686 |

*See accompanying notes to combined financial statement.*

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| **Operating revenues** | | |
| Net patient service revenue | $ 46,004,039 | $ 44,136,162 |
| Other operating revenue | 830,930 | 853,671 |
| Total operating revenues | 46,834,969 | 44,989,833 |
| **Operating expenses** | | |
| Salaries and wages | 18,176,971 | 18,023,753 |
| Employee benefits | 6,482,335 | 6,317,884 |
| Supplies | 7,376,023 | 6,720,538 |
| Purchased services | 4,961,321 | 4,793,310 |
| Physician fees | 1,771,345 | 1,473,744 |
| Depreciation and amortization | 2,613,753 | 2,367,089 |
| Professional fees | 188,083 | 179,957 |
| Utilities | 1,005,038 | 1,065,918 |
| Insurance | 435,623 | 571,112 |
| Other | 1,161,385 | 1,046,070 |
| Total operating expenses | 44,171,877 | 42,559,375 |
| **Income from operations** | 2,663,092 | 2,430,458 |
| **Nonoperating gains (losses)** | | |
| Investment income | 175,465 | 124,261 |
| Capital grants | 35,953 | 53,765 |
| Interest earnings on restricted assets | 127,904 | 221,768 |
| Interest expense | (951,561) | (963,955) |
| Other nonoperating gains | 29,757 | 46,812 |
| Total nonoperating gains (losses) | (582,482) | (517,349) |
| **Excess of revenue over expenses** | 2,080,610 | 1,913,109 |
| **Other changes in net assets** | | |
| Change in interest rate swap | 275,890 | (498,639) |
| **Change in net assets** | 2,356,500 | 1,414,470 |
| **Net assets - beginning of year** | 19,437,602 | 18,023,132 |
| **Net assets - end of year** | $ 21,794,102 | $ 19,437,602 |

*See accompanying notes to combined financial statement.*

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from patients and third-party payors | $ 45,759,468 | $ 45,716,533 |
| Cash payments to suppliers for services and goods | (17,808,604) | (15,946,441) |
| Cash payments to employees and related benefits | (24,633,832) | (25,009,822) |
| Other operating revenue | 830,930 | 853,671 |
| Net cash flows from operating activities | 4,147,962 | 5,613,941 |
| **Cash flows from capital and related financing activities** | | |
| Acquisition and construction of capital assets | (1,328,740) | (2,319,108) |
| Deferred amount on refunding | 299,246 | 323,259 |
| Principal payments on bonds | (843,646) | (838,088) |
| Interest paid | (951,561) | (963,955) |
| Principal payments on capital leases | (286,495) | (273,259) |
| Capital grants received | 35,953 | 53,765 |
| Net cash flows from capital and related financing activities | (3,075,243) | (4,017,386) |
| **Cash flow from investing activities** | | |
| Advances to physicians - net of forgiveness | 536,819 | (108,096) |
| Income received on investments | 303,369 | 346,029 |
| Income from other nonoperating gains | 29,757 | 46,812 |
| Purchases of investments | (3,511,833) | (9,267,216) |
| Proceeds from sale of investments | 5,153,659 | 8,718,924 |
| Net cash flows from investing activities | 2,511,771 | (263,547) |
| **Change in cash and cash equivalents** | 3,584,490 | 1,333,008 |
| Cash and cash equivalents - beginning of year | 11,535,854 | 10,202,846 |
| Cash and cash equivalents- end of year | $ 15,120,344 | $ 11,535,854 |
| **Balance sheet classification of cash and cash equivalents** | | |
| Current assets - cash | $ 7,542,089 | $ 9,078,866 |
| Assets limited as to use | 7,578,255 | 2,456,988 |
| Total | $ 15,120,344 | $ 11,535,854 |
| **Supplemental disclosure of non cash activities** | | |
| Amortization of bond financing costs | $ 24,048 | $ 25,968 |
| Change in interest rate swap | 275,890 | (498,639) |

*See accompanying notes to combined financial statement.*

## HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2009 AND 2008

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

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Income from operations | $ 2,663,092 | $ 2,430,458 |
| Adjustments to reconcile income from operations to net cash flows from operating activities | | |
| Depreciation and amortization | 2,613,753 | 2,367,089 |
| Provision for bad debt | 5,670,585 | 4,527,705 |
| Loss on sale of assets | 18,465 | 4,920 |
| Change in operating assets and liabilities | | |
| Patient receivables | (6,522,714) | (3,917,355) |
| Inventories | 86,640 | (116,247) |
| Prepaid expenses and other | (12,310) | (86,062) |
| Accounts payable | (1,002,581) | 551,498 |
| Accrued expenses and compensated absenses | 25,474 | (668,185) |
| Estimated amounts due from third-party payors | 607,558 | 520,120 |
| Net cash from operating activities | $ 4,147,962 | $ 5,613,941 |

*See accompanying notes to combined financial statement.*

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity/Basis of Consolidation

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

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

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

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

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

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

### Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34.

## Cash and Cash Equivalents

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

## Inventories

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

## Assets Whose Use is Limited

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

Investment income or loss (including unrealized gains and losses on investments, realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

## Enterprise Fund Accounting

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

## Capital Assets

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

Unamortized Financing Costs

Costs incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding using the effective interest method. Amortization expense totaled $24,065 and $25,968 in 2009 and 2008, respectively.

Intangible Assets

Intangible assets are related to the acquisitions of PSC in 1999 and PFW in 2001.

Compensated Absences

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

Restricted Resources

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

Notes and Grants Receivable

Consistent with the Organization's policy on physician relocation and recruitment, the Organization provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Organization's service area and commit to remain in practice for a specified term. Under such agreements, the Organization is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount of the income guarantee. Income guarantee periods are generally two years. Such payments are recoverable from the physicians in the event that their commitment period is not met, which is typically three years. Should the arrangement between the Organization and the physician be terminated prior to the end date agreed upon by both parties, the Organization will pursue collection of any outstanding advances.

The Organization recorded a liability of $0 and $536,819 at December 31, 2009 and 2008, respectively, for the estimated obligation to the Organization under these agreements with an offsetting asset recorded within the accompanying balance sheet.

## Net Assets

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

## Use of Estimates

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

## Net Patient Service Revenue

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

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

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

## Income from Operations

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

## 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. Charges foregone for charity care totaled $2,116,817 and $2,134,215 for 2009 and 2008, respectively.

## 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.

## Federal Income Tax

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

## Beneficial Interest in Trust

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

## Reclassifications

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the current year presentation. There was no change in previously reported net assets as a result of these reclassifications.

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 May 24, 2010.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Common stocks | $ 97,008 | $ - | $ - | $ 97,008 |
| Liabilities: | | | | |
| Interest rate swap agreements | $ - | $ 593,505 | $ - | $ 593,505 |

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Common stocks | $ 98,912 | $ - | $ - | $ 98,912 |
| United States government and agency obligations | - | 5,023,767 | - | 5,023,767 |
| Total assets | $ 98,912 | $ 5,023,767 | $ - | $ 5,122,679 |
| Liabilities: | | | | |
| Interest rate swap agreements | $ - | $ 869,400 | $ - | $ 869,400 |

## 3. DEPOSITS AND INVESTMENTS

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Fair Value | Amortized Historical Cost | Fair Value | Amortized Historical Cost |
| Demand deposits and money market accounts | $ 15,120,344 | $ 15,120,344 | $ 11,535,854 | $ 11,535,854 |
| Certificates of deposit | 3,383,855 | 3,383,855 | - | - |
| Stocks | 97,008 | 5,787 | 98,912 | 5,787 |
| U. S. government obligations | - | - | 5,023,767 | 4,982,635 |
| Total | $ 18,601,207 | $ 18,509,986 | $ 16,658,533 | $ 16,524,276 |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Fair Value | Amortized Historical Cost | Fair Value | Amortized Historical Cost |
| Amounts summarized by fund type- | | | | |
| General funds: | | | | |
| Cash | $ 7,542,089 | $ 7,542,089 | $ 9,078,866 | $ 9,078,866 |
| Assets limited as to use | 11,059,118 | 10,967,897 | 7,579,667 | 7,445,410 |
| Total | $ 18,601,207 | $ 18,509,986 | $ 16,658,533 | $ 16,524,276 |

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, 2009 and 2008, the Organization had $3,892,746 and $10,528,168, respectively, of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution.

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

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

| | Carrying Amount | Maturities | |
|---|---|---|---|
| | | < than one year | > than one year |
| December 31, 2009 | | | |
| Certificates of deposit | $ 3,383,855 | $ 1,761,286 | $ 1,622,569 |

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

Credit risk – The 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 mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

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

## 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

| | 2009 | 2008 |
|---|---|---|
| Total patient accounts receivable | $ 13,720,932 | $ 11,370,500 |
| Less allowance for: | | |
| Uncollectible accounts | (3,719,733) | (2,597,851) |
| Contractual adjustments | (4,055,499) | (3,679,078) |
| Net patient accounts receivable | $ 5,945,700 | $ 5,093,571 |

The mix of accounts receivable from patients and third-party payors in 2009 and 2008 follows:

| | 2009 | 2008 |
|---|---|---|
| Medicare | 28% | 28% |
| Medicaid | 14% | 15% |
| Self-pay | 32% | 27% |
| Commercial and other | 26% | 30% |
| | 100% | 100% |

# 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

| | 2008 | Additions | Retirements | 2009 |
|---|---|---|---|---|
| Land | $ 24,937 | $ - | $ - | 24,937 |
| Land improvements | 683,709 | 27,532 | - | 711,241 |
| Buildings and improvements | 15,013,489 | 311,956 | - | 15,325,445 |
| Equipment | 18,037,784 | 1,095,209 | (790,950) | 18,342,043 |
| Equipment - capital leases | 2,829,237 | - | - | 2,829,237 |
| Construction in progress | 250,547 | (105,957) | - | 144,590 |
| Total capital assets | 36,839,703 | 1,328,740 | (790,950) | 37,377,493 |
| Less accumulated depreciation | | | | |
| Land improvements | 619,291 | 11,052 | - | 630,343 |
| Buildings and improvements | 7,528,896 | 775,015 | - | 8,303,911 |
| Equipment | 11,705,224 | 1,454,947 | (772,485) | 12,387,686 |
| Equipment - capital leases | 2,146,811 | 312,689 | - | 2,459,500 |
| Total accumulated depreciation | 22,000,222 | 2,553,703 | (772,485) | 23,781,440 |
| Capital assets, net | $ 14,839,481 | $ (1,224,963) | $ (18,465) | $ 13,596,053 |

Capital asset activity for the year ended December 31, 2008 was as follows:

| | 2007 | Additions | Retirements | 2008 |
|---|---|---|---|---|
| Land | $ 24,937 | $ - | $ - | $ 24,937 |
| Land improvements | 683,709 | - | - | 683,709 |
| Buildings and improvements | 15,010,232 | 9,407 | (6,150) | 15,013,489 |
| Equipment | 16,451,520 | 2,066,100 | (479,836) | 18,037,784 |
| Equipment - capital leases | 2,829,237 | - | - | 2,829,237 |
| Construction in progress | 6,946 | 243,601 | - | 250,547 |
| Total capital assets | 35,006,581 | 2,319,108 | (485,986) | 36,839,703 |
| Less accumulated depreciation | | | | |
| Land improvements | 599,880 | 19,411 | - | 619,291 |
| Buildings and improvements | 7,010,194 | 760,902 | (242,200) | 7,528,896 |
| Equipment | 10,744,338 | 1,199,752 | (238,866) | 11,705,224 |
| Equipment - capital leases | 1,821,755 | 325,056 | - | 2,146,811 |
| Total accumulated depreciation | 20,176,167 | 2,305,121 | (481,066) | 22,000,222 |
| Capital assets, net | $ 14,830,414 | $ 13,987 | $ (4,920) | $ 14,839,481 |

## 6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 64% 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. Medicare cost reports are final settled through 2007.

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.

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, 2009 and 2008, the Organization recognized a loss of approximately $134,000 and $53,000, respectively, due to the difference between original estimates and subsequent revisions due to final settlements and changes in allowance methodology.

Other

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

## 7. LONG-TERM DEBT

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

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

On August 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 0.75% at December 31, 2009. The debt is collateralized by a bank letter of credit which expires on July 1, 2013.

$10,180,000 of variable rate Hospital Facilities Revenue Refunding Bonds (interest at 0.47% at December 31, 2009) were issued in 2007 to refund a total of $10,450,000 1999 bonds with an interest rate of 6.75%. The refunding reduced the total debt service payments over the next 22 years by approximately $8,500,000, which represents an economic gain of approximately $4,000,000. The debt is collateralized by a bank letter of credit which expires on July 1, 2013.

The variable rate 2007 Bonds and 2004 Bonds are both remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be "put" back to the Bond Trustee, who would draw down on the letter of credit to pay down the Bonds. The reimbursement Agreement between the letter-of-credit bank and the Organization provides for the Organization to reimburse the letter-of-credit bank any principal or interest draws against the letter of credit on the date of any such drawing and remarketing draws upon maturity of the letter of credit.

The Organization leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 4.99% to 5.82% through 2011, and are collateralized by the equipment leased. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation expense for 2009 and 2008.

Long-term debt activity for the year ended December 31, 2009 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Leases, bonds, and loans payable: | | | | | |
| Lease obligations | $ 638,327 | $ - | $ (286,495) | $ 351,832 | $ 300,374 |
| Bonds and loans payable | 12,317,193 | - | (843,646) | 11,473,547 | 849,210 |
| Deferred amount on refunding | (299,246) | - | 299,246 | - | - |
| Total leases, bonds, and loans payable | $ 12,656,274 | $ - | $ (830,895) | $ 11,825,379 | $ 1,149,584 |

Long-term debt activity for the year ended December 31, 2008 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Leases, bonds, and loans payable: | | | | | |
| Lease obligations | $ 911,586 | $ - | $ (273,259) | $ 638,327 | $ 285,937 |
| Bonds and loans payable | 13,155,281 | - | (838,088) | 12,317,193 | 843,646 |
| Deferred amount on refunding | (622,505) | - | 323,259 | (299,246) | - |
| Total leases, bonds, and loans payable | $ 13,444,362 | $ - | $ (788,088) | $ 12,656,274 | $ 1,129,583 |

The following is a schedule of bond and loan principal and interest and future minimum lease payments as of December 31, 2009:

| | Bonds and Loans Payable | Bonds and Loans Interest | Lease Payable |
|---|---|---|---|
| 2010 | $ 849,210 | $ 367,472 | $ 310,581 |
| 2011 | 859,811 | 358,268 | 51,764 |
| 2012 | 865,426 | 287,996 | - |
| 2013 | 871,131 | 283,811 | - |
| 2014 | 881,857 | 249,935 | - |
| 2015-2019 | 4,506,931 | 805,100 | - |
| 2020-2024 | 2,639,181 | 124,787 | - |
| Total payments | 11,473,547 | 2,477,369 | 362,345 |
| Less amount representing interest | | | (10,512) |
| Total | | | $ 351,832 |

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

| | 2009 | 2008 |
|---|---|---|
| Cost of equipment under capital lease | $ 2,829,237 | $ 2,829,237 |
| Lease accumulated amortization | 2,459,500 | 2,146,811 |
| Net carrying amount | $ 369,737 | $ 682,426 |

## 8. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

The objective of the swap is to hedge interest rate risk, that is, the risk that changes in the benchmark interest rate, in this case the Securities Industry and Financial Markets Association (SIFMA) swap index, will adversely affect the cash flows of the variable-rate bonds. Therefore, the swap is not intended to hedge the total cash flows of the bonds. The potential hedging derivative instrument is the interest rate swap. The hedgeable items are the variable-rate bonds. Based on the consistency of the terms of the swap and the variable-rate bonds, the city determines that the swap is a hedging derivative instrument using the consistent critical terms method. Accordingly, changes in the fair values of the swap are reported as deferrals on the statement of net assets.

On June 1, 2007, the Organization issues variable-rate demand bonds of $10,180,000. The bonds mature on December 1, 2021. The coupon is remarketed weekly and the remarketing rate is the SIFMA rate.

At the same time, the Organization entered into a $10,180,000 notional, pay-fixed, receive-variable interest rate swap. The variable rate on the swap also resets weekly. The variable rate is the SIFMA swap index. The fixed rate is 3.942 percent, and the swap terminates on December 1, 2021. Upon association with the variable-rate bonds (which, in this case, is at the inception of the swap), the fair value of the swap is zero.

Shortly after the swap was executed, interest rates fell significantly. As rates change, the changes in cash flows of the variable-rate bonds attributable to changes in the SIFMA swap index are substantially offset by similar changes in variable cash flows on the swap.

Following is an analysis of the changes in the net loss on cash flow hedges included in changes in net assets:

| | 2009 | 2008 |
|---|---|---|
| Balance, beginning of year | $ 869,400 | $ 370,761 |
| Net loss for the year | (275,895) | (498,639) |
| Balance, end of year | $ 593,505 | $ 869,400 |

The hedgeable items are the variable-rate demand bonds. The variability of the cash flows of the bond coupons is affected by more than changes in the benchmark interest rate. For example, changes in the credit quality of the Organization's bonds could affect its remarket rates. The Organization's specific objective, however, is to offset changes in the cash flows of the bond coupons (a cash flow hedge) attributable to changes in the benchmark interest rate. The relevant benchmark interest rate is the SIFMA swap index.

Because the terms of the bonds and the interest rate swap are consistent, the Organization uses the consistent critical terms method to evaluate effectiveness as of the end of the reporting period. The following table shows how the critical terms of the pay-fixed, receive-variable swap are consistent with the critical terms of the variable-rate demand bonds:

| Interest Rate Swap | | Variable-Rate Demand Bonds | |
|---|---|---|---|
| Notional | $10,180,000 | Bond principal | $10,180,000 |
| Termination | December 1, 2021 | Maturity of bonds | December 1, 2021 |
| Variable payment | SIFMA swap index | Benchmark interest rate | SIFMA swap index |
| Floor or cap | No | Floor or cap | No |
| Time interval of reference rate | Every 7 days | Time interval of reference rate | Every 7 days |
| Frequency of rate resets | Weekly | Frequency of rate resets | Weekly |
| Rate reset dates | Wednesday | Rate reset dates | Thursday |
| Swap payment date | The 1st day of every month | Coupon payment date | The 1st Thursday of every month |

Upon association with the variable-rate demand bonds, the pay-fixed, receive variable swap has a zero fair value. The fixed rate (3.942 percent) and the formula to determine the variable rate of the swap (SIFMA swap index) remains the same throughout the life of the swap.

Because the critical terms are consistent, the changes in cash flows of the swap will substantially offset the changes in cash flows of the variable-rate demand bonds attributable to changes in the SIFMA swap index. Therefore, the swap is a hedging derivative instrument, and hedge accounting is applied. At the end of each subsequent reporting period, the city verifies the critical terms have not changed.

## 9. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Payroll and related amounts | $ 1,201,165 | $ 835,077 |
| Physician recruitment liability | - | 308,039 |
| Workers' compensation premiums | 271,105 | 275,187 |
| Pension | 363,837 | 367,394 |
| Grants | 42,861 | 43,937 |
| Interest | 46,722 | 30,467 |
| Total accrued liabilities | $ 1,925,690 | $ 1,860,101 |

## 10. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

| | 2009 | 2008 |
|---|---|---|
| Revenue: | | |
| Inpatient services: | | |
| Routine services | $ 7,037,972 | $ 6,828,332 |
| Ancillary services | 12,978,200 | 12,290,326 |
| Outpatient services | 73,448,951 | 65,619,614 |
| Total patient revenue | 93,465,123 | 84,738,272 |
| Revenue deductions: | | |
| Provision for contractual allowances | 39,673,682 | 33,940,190 |
| Provision for bad debt allowances | 5,670,585 | 4,527,705 |
| Provision for charity care | 2,116,817 | 2,134,215 |
| Total revenue deductions | 47,461,084 | 40,602,110 |
| Total net patient service revenue | $ 46,004,039 | $ 44,136,162 |

## 11. DEFINED BENEFIT PENSION PLAN

The Organization contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

### Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, 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 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

| Year | Contribution |
|---|---|
| 2009 | $ 2,087,000 |
| 2008 | $ 2,065,000 |
| 2007 | $ 2,174,000 |

Organization contributions made to fund post-employment benefits approximated $876,000, $1,032,000 and $1,087,000 for 2009, 2008, and 2007, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

## 12. 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 $6,000,000 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.

# ADDITIONAL FINANCIAL INFORMATION

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

# REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

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

We have audited the consolidated financial statements of Highland County Joint Township Hospital District as of December 31, 2009 and 2008. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information in the accompanying schedules on pages 28-33 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual components and is not a required part of the basic consolidated financial statements. The information has been subjected to the procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Blue & Co., LLC

July 12, 2010

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATING BALANCE SHEET
## DECEMBER 31, 2009

### ASSETS

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 7,324,920 | $ 114 | $ 73,673 | $ 59,565 | $ 83,817 | $ - | $ 7,542,089 |
| Assets limited as to use - current portion | 272,862 | - | - | - | - | - | 272,862 |
| Patient accounts receivable - net | 5,374,335 | - | 489,103 | 82,262 | - | - | 5,945,700 |
| Inventories | 407,336 | - | - | - | - | - | 407,336 |
| Prepaid expenses and other current assets | 862,497 | - | 72,427 | 21,135 | - | - | 956,059 |
| Accrued interest receivable | 15,823 | - | - | - | - | - | 15,823 |
| Notes and grants receivable - current portion | 9,128 | - | - | - | - | (9,128) | - |
| Total current assets | 14,266,901 | 114 | 635,203 | 162,962 | 83,817 | (9,128) | 15,139,869 |
| **Assets limited as to use** | | | | | | | |
| Restricted by contributors for capital improvements and other purposes | 1,023,734 | - | - | - | 182,361 | - | 1,206,095 |
| Principal of permanent endowments | - | - | - | - | 17,473 | - | 17,473 |
| Designated by Board for capital improvements and employee benefits | 9,119,682 | - | - | - | - | - | 9,119,682 |
| Held by trustee under bond indenture agreements | 715,868 | - | - | - | - | - | 715,868 |
| Total assets limited as to use | 10,859,284 | - | - | - | 199,834 | - | 11,059,118 |
| Less amounts to meet current obligations | (272,862) | - | - | - | - | - | (272,862) |
| Total assets limited as to use - noncurrent portion | 10,586,422 | - | - | - | 199,834 | - | 10,786,256 |
| **Capital assets - net** | 13,197,570 | - | 369,409 | 29,074 | - | - | 13,596,053 |
| **Other assets** | | | | | | | |
| Notes and grants receivable - net of current portion | - | - | - | - | - | - | - |
| Other assets | - | - | - | 57,000 | - | - | 57,000 |
| Unamortized financing costs - net | 159,669 | - | - | - | - | - | 159,669 |
| Total other assets | 159,669 | - | - | 57,000 | - | - | 216,669 |
| Total assets | $ 38,210,562 | $ 114 | $ 1,004,612 | $ 249,036 | $ 283,651 | $ (9,128) | $ 39,738,847 |

See report of independent auditors on other financial information on page 27.

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATING BALANCE SHEET
## DECEMBER 31, 2009

### LIABILITIES AND NET ASSETS

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | | |
| Current portion of long-term debt | $ 1,140,374 | $ - | $ 9,210 | $ - | $ - | $ - | $ 1,149,584 |
| Accounts payable | 776,158 | - | 83,100 | 5,986 | - | - | 865,244 |
| Accrued liabilities | 1,755,421 | - | 101,104 | 78,293 | - | (9,128) | 1,925,690 |
| Estimated amounts due to third-party payors | 1,766,555 | - | - | - | - | - | 1,766,555 |
| Total current liabilities | 5,438,508 | - | 193,414 | 84,279 | - | (9,128) | 5,707,073 |
| **Compensated absences** | 953,771 | - | 11,904 | 2,697 | - | - | 968,372 |
| **Long-term debt - net of current portion** | 10,526,458 | - | 149,337 | - | - | - | 10,675,795 |
| Total liabilities | 16,918,737 | - | 354,655 | 86,976 | - | (9,128) | 17,351,240 |
| **Interest rate swap** | 593,505 | - | - | - | - | - | 593,505 |
| **Net assets** | | | | | | | |
| Invested in capital assets - net of related debt | 1,530,738 | - | 210,862 | 29,074 | - | - | 1,770,674 |
| Restricted: | | | | | | | |
| Expendable for capital improvements and debt service | 1,739,602 | - | - | - | 182,361 | - | 1,921,963 |
| Nonexpendable permanent endowments | - | - | - | - | 17,473 | - | 17,473 |
| Unrestricted | 17,427,980 | 114 | 439,095 | 132,986 | 83,817 | - | 18,083,992 |
| Total net assets | 20,698,320 | 114 | 649,957 | 162,060 | 283,651 | - | 21,794,102 |
| Total liabilities and net assets | $ 38,210,562 | $ 114 | $ 1,004,612 | $ 249,036 | $ 283,651 | $ (9,128) | $ 39,738,847 |

See report of independent auditors on other financial information on page 27.

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATING BALANCE SHEET
## DECEMBER 31, 2008

### ASSETS

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ 8,900,855 | $ 92 | $ 43,845 | $ 53,223 | $ 80,851 | $ - | $ 9,078,866 |
| Assets limited as to use - current portion | 234,855 | - | - | - | - | - | 234,855 |
| Patient accounts receivable - net | 4,781,430 | - | 204,407 | 107,734 | - | - | 5,093,571 |
| Inventories | 493,976 | - | - | - | - | - | 493,976 |
| Prepaid expenses and other current assets | 823,671 | - | 64,956 | 41,605 | - | - | 930,232 |
| Accrued interest receivable | 29,340 | - | - | - | - | - | 29,340 |
| Notes and grants receivable - current portion | 55,840 | - | - | - | - | (10,285) | 45,555 |
| Total current assets | 15,319,967 | 92 | 313,208 | 202,562 | 80,851 | (10,285) | 15,906,395 |
| **Assets limited as to use** | | | | | | | |
| Restricted by contributors for capital improvements and other purposes | 998,066 | - | - | - | 187,343 | - | 1,185,409 |
| Principal of permanent endowments | - | - | - | - | 17,473 | - | 17,473 |
| Designated by Board for capital improvements and employee benefits | 5,660,917 | - | - | - | - | - | 5,660,917 |
| Held by trustee under bond indenture agreements | 715,868 | - | - | - | - | - | 715,868 |
| Total assets limited as to use | 7,374,851 | - | - | - | 204,816 | - | 7,579,667 |
| Less amounts to meet current obligations | (234,855) | - | - | - | - | - | (234,855) |
| Total assets limited as to use - noncurrent portion | 7,139,996 | - | - | - | 204,816 | - | 7,344,812 |
| **Capital assets - net** | 14,374,072 | - | 448,184 | 17,225 | - | - | 14,839,481 |
| **Other assets** | | | | | | | |
| Notes and grants receivable - net of current portion | 491,264 | - | - | - | - | - | 491,264 |
| Other assets | - | - | - | 93,000 | - | - | 93,000 |
| Unamortized financing costs - net | 183,734 | - | - | - | - | - | 183,734 |
| Total other assets | 674,998 | - | - | 93,000 | - | - | 767,998 |
| Total assets | $ 37,509,033 | $ 92 | $ 761,392 | $ 312,787 | $ 285,667 | $ (10,285) | $ 38,858,686 |

See report of independent auditors on other financial information on page 27.

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2008

## LIABILITIES AND NET ASSETS

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | | |
| Current portion of long-term debt | $ 1,121,495 | $ - | $ 8,088 | $ - | $ - | $ - | $ 1,129,583 |
| Accounts payable | 1,809,675 | - | 35,245 | 22,905 | - | - | 1,867,825 |
| Accrued liabilities | 1,764,128 | - | 59,744 | 46,514 | - | (10,285) | 1,860,101 |
| Estimated amounts due to third-party payors | 1,158,997 | - | - | - | - | - | 1,158,997 |
| Total current liabilities | 5,854,295 | - | 103,077 | 69,419 | - | (10,285) | 6,016,506 |
| **Compensated absences** | 996,043 | - | 10,879 | 1,565 | - | - | 1,008,487 |
| **Long-term debt - net of current portion** | 11,367,586 | - | 159,105 | - | - | - | 11,526,691 |
| Total liabilities | 18,217,924 | - | 273,061 | 70,984 | - | (10,285) | 18,551,684 |
| **Interest rate swap** | 869,400 | - | - | - | - | - | 869,400 |
| **Net assets** | | | | | | | |
| Invested in capital assets - net of related debt | 1,884,991 | - | 280,991 | 17,225 | - | - | 2,183,207 |
| Restricted: | | | | | | | |
| Expendable for capital improvements and debt service | 1,713,934 | - | - | - | 187,343 | - | 1,901,277 |
| Nonexpendable permanent endowments | - | - | - | - | 17,473 | - | 17,473 |
| Unrestricted | 14,822,784 | 92 | 207,340 | 224,578 | 80,851 | - | 15,335,645 |
| Total net assets | 18,421,709 | 92 | 488,331 | 241,803 | 285,667 | - | 19,437,602 |
| Total liabilities and net assets | $ 37,509,033 | $ 92 | $ 761,392 | $ 312,787 | $ 285,667 | $ (10,285) | $ 38,858,686 |

See report of independent auditors on other financial information on page 27.

## HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

### CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
### YEAR ENDED DECEMBER 31, 2009

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminating | Total |
|---|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | | |
| Net patient service revenue | $ 42,588,128 | $ - | $ 2,868,059 | $ 1,031,613 | $ - | $ (483,761) | $ 46,004,039 |
| Other operating revenue | 829,646 | 62 | 1,629 | 549 | 73,744 | (74,700) | 830,930 |
| Total operating revenues | 43,417,774 | 62 | 2,869,688 | 1,032,162 | 73,744 | (558,461) | 46,834,969 |
| **Operating expenses** | | | | | | | |
| Salaries and wages | 15,051,812 | - | 1,997,935 | 1,127,224 | - | - | 18,176,971 |
| Employee benefits | 5,848,205 | - | 429,057 | 205,073 | - | - | 6,482,335 |
| Supplies | 7,139,833 | - | 118,763 | 91,685 | 25,742 | - | 7,376,023 |
| Purchased services | 3,941,743 | - | 1,041,427 | 6,405 | 19,471 | (47,725) | 4,961,321 |
| Physician fees | 2,196,690 | - | 36,800 | - | 3,220 | (465,365) | 1,771,345 |
| Depreciation | 2,497,362 | - | 74,919 | 41,472 | - | - | 2,613,753 |
| Professional fees | 188,083 | - | - | - | - | - | 188,083 |
| Utilities | 896,372 | - | 77,865 | 30,801 | - | - | 1,005,038 |
| Insurance | 406,994 | - | 24,339 | 4,290 | - | - | 435,623 |
| Other | 563,579 | 40 | 384,826 | 230,211 | 28,100 | (45,371) | 1,161,385 |
| Total operating expenses | 38,730,673 | 40 | 4,185,931 | 1,737,161 | 76,533 | (558,461) | 44,171,877 |
| **Income (loss) from operations** | 4,687,101 | 22 | (1,316,243) | (704,999) | (2,789) | - | 2,663,092 |
| **Nonoperating gains (losses)** | | | | | | | |
| Investment income | 174,664 | - | - | 28 | 773 | - | 175,465 |
| Capital grants | 35,953 | - | - | - | - | - | 35,953 |
| Interest on restricted assets | 127,904 | - | - | - | - | - | 127,904 |
| Interest expense | (941,214) | - | (10,347) | - | - | - | (951,561) |
| Other nonoperating gains | 16,313 | - | 13,216 | 228 | - | - | 29,757 |
| Total nonoperating gains (losses) | (586,380) | - | 2,869 | 256 | 773 | - | (582,482) |
| **Excess of revenue over expenses** | 4,100,721 | 22 | (1,313,374) | (704,743) | (2,016) | - | 2,080,610 |
| **Change in interest rate swap** | 275,890 | - | - | - | - | - | 275,890 |
| **Transfer from (to) affiliates** | (2,100,000) | - | 1,475,000 | 625,000 | - | - | - |
| **Change in net assets** | 2,276,611 | 22 | 161,626 | (79,743) | (2,016) | - | 2,356,500 |
| **Net assets - beginning of year** | 18,421,709 | 92 | 488,331 | 241,803 | 285,667 | - | 19,437,602 |
| **Net assets - end of year** | $ 20,698,320 | $ 114 | $ 649,957 | $ 162,060 | $ 283,651 | - | $ 21,794,102 |

See report of independent auditors on other financial information on page 27.

# HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
## YEAR ENDED DECEMBER 31, 2008

| | Hospital | HDH Foundation | PSC | PFW | HJTDH Foundation | Eliminating | Total |
|---|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | | |
| Net patient service revenue | $ 41,222,657 | $ - | $ 2,255,536 | $ 1,209,122 | $ - | $ (551,153) | $ 44,136,162 |
| Other operating revenue | 752,271 | 120 | 1,787 | 716 | 144,094 | (45,317) | 853,671 |
| Total operating revenue | 41,974,928 | 120 | 2,257,323 | 1,209,838 | 144,094 | (596,470) | 44,989,833 |
| **Operating expenses** | | | | | | | |
| Salaries and wages | 15,116,648 | - | 1,766,085 | 1,141,020 | - | - | 18,023,753 |
| Employee benefits | 5,727,830 | - | 375,390 | 214,664 | - | - | 6,317,884 |
| Supplies | 6,486,219 | - | 121,745 | 90,940 | 21,634 | - | 6,720,538 |
| Purchased services | 4,131,501 | - | 652,944 | 848 | 20,651 | (12,634) | 4,793,310 |
| Physician fees | 1,913,000 | - | 91,464 | - | 10,645 | (541,365) | 1,473,744 |
| Depreciation | 2,246,112 | - | 80,267 | 40,710 | - | - | 2,367,089 |
| Professional fees | 179,957 | - | - | - | - | - | 179,957 |
| Utilities | 954,576 | - | 80,319 | 31,023 | - | - | 1,065,918 |
| Insurance | 529,951 | - | 21,695 | 19,466 | - | - | 571,112 |
| Other | 403,530 | 120 | 399,149 | 248,660 | 49,900 | (55,289) | 1,046,070 |
| Total operating expenses | 37,689,324 | 120 | 3,589,058 | 1,787,331 | 102,830 | (609,288) | 42,559,375 |
| **Income (loss) from operations** | 4,285,604 | - | (1,331,735) | (577,493) | 41,264 | 12,818 | 2,430,458 |
| **Nonoperating gains (losses)** | | | | | | | |
| Investment income | 118,362 | - | - | 308 | 5,591 | - | 124,261 |
| Capital grants | 53,765 | - | - | - | - | - | 53,765 |
| Interest on restricted assets | 221,768 | - | - | - | - | - | 221,768 |
| Interest expense | (953,051) | - | (10,904) | - | - | - | (963,955) |
| Other nonoperating gains | 62,676 | - | (3,159) | 113 | - | (12,818) | 46,812 |
| Total nonoperating gains (losses) | (496,480) | - | (14,063) | 421 | 5,591 | (12,818) | (517,349) |
| **Excess of revenue over expenses** | 3,789,124 | - | (1,345,798) | (577,072) | 46,855 | - | 1,913,109 |
| **Change in interest rate swap** | (498,639) | - | - | - | - | - | (498,639) |
| **Transfer from (to) affiliates** | (2,020,000) | - | 1,350,000 | 670,000 | - | - | - |
| **Change in net assets** | 1,270,485 | - | 4,202 | 92,928 | 46,855 | - | 1,414,470 |
| **Net assets - beginning of year** | 17,151,224 | 92 | 484,129 | 148,875 | 238,812 | - | 18,023,132 |
| **Net assets - end of year** | $ 18,421,709 | $ 92 | $ 488,331 | $ 241,803 | $ 285,667 | $ - | $ 19,437,602 |

See report of independent auditors on other financial information on page 27.

CPAs ADVISORS

blue

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the consolidated financial statements of Highland County Joint Township Hospital District (the Organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated July 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

### Compliance and Other Matters

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

We communicated certain matters to the Organization's management in a separate letter dated July 12, 2010.

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

Blue & Co., LLC

July 12, 2010

**2008-1: Physician Recruitment Asset and Liability**

In accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business of Its Owners," the Organization has a liability of $298,038 at December 31, 2008 for the fair value of physician guarantees with an offsetting asset of $536,819 recorded in other assets within the balance sheet. The Organization recorded amortization of $170,078 in 2008 for the initial grant for Dr. Bart. Pursuant to the agreement, amortization should not be recognized until November 2009.

We recommend that management analyze new physician agreements with income guarantees for possible accounting of future commitments. We are pleased to be available to answer questions and provide technical accounting guidance with respect to these agreements.

**Current Status:**

Management analyzes physician agreements for proper accounting treatment. Corrective action was taken.

Mary Taylor, CPA
Auditor of State

**HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**NOVEMBER 23, 2010**

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