

Highland County Joint Township District Hospital

**Consolidated Financial Report
with Additional Information
December 31, 2000**



STATE OF OHIO
OFFICE OF THE AUDITOR

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Board of Trustees and Board of Governors
Highland County Joint Township District Hospital

We have reviewed the Independent Auditor's Report of the Highland County Joint Township District Hospital, Highland County, prepared by Plante & Moran LLP for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted this report 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 District Hospital is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

July 18, 2001

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Highland County Joint Township District Hospital

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of Highland County Joint Township District Hospital and subsidiaries (Highland District Foundation and Highland District Professional Service Corporation) as of December 31, 2000, and the related consolidated statements of revenue and expenses of general funds, changes in fund balances, and cash flows of general funds for the year then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highland County Joint Township District Hospital and subsidiaries as of December 31, 2000, and the consolidated results of their operations, changes in their fund balances, and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.



April 27, 2001

Highland County Joint Township District Hospital

Assets General Funds

Current Assets

Cash and cash equivalents (Note 2)	\$ 975,166
Assets limited as to use, current portion	696,009
Patient accounts receivable (Note 3)	4,940,388
Inventories	321,343
Prepaid expenses and other assets	178,576
Accrued interest receivable	36,405
Notes receivable, current portion (Note 4)	154,598
Other receivables	<u>32,217</u>
Total current assets	7,334,702

Assets Limited as to Use (Note 2)

Under debt agreement	1,341,784
By Board for employee benefits	155,107
By Board for capital improvements	<u>2,351,674</u>
Total assets limited as to use	3,848,565
Less amounts to meet current construction obligations	<u>(696,009)</u>
Assets limited to use, noncurrent portion	3,152,556

Property, Plant and Equipment, Net (Notes 5,7) 15,740,423

Notes Receivable- net current portion (Note 4) 381,519

Intangible Assets 140,000

Unamortized Financing Costs, Net 160,214

Total assets \$ 26,909,414

Donor Restricted Funds

Specific Purpose Funds

Investments (Note 2)	\$ 803,799
Accrued interest receivable	<u>7,535</u>
Total specific purpose funds	<u><u>\$ 811,334</u></u>

Endowment Funds

Investments (Note 2)	<u><u>\$ 19,077</u></u>
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Consolidated Balance Sheet
December 31, 2000

Liabilities and Fund Balances
General Funds

Current Liabilities

Current portion of long-term debt (Note 7)	\$ 201,109
Accounts payable - trade	1,228,754
Accounts payable - construction (Note 13)	494,900
Accrued expenses - employee compensation	1,196,167
Accrued expenses - other	450,942
Estimated amounts due third-party payors (Note 6)	<u>229,685</u>
Total current liabilities	3,801,557

Long-Term Debt, Net of Current Portion (Note 7) 11,408,474

Fund Balance, General Funds 11,699,383

Total Liabilities and Fund Balance \$ 26,909,414

Donor-Restricted Funds

Specific-Purpose Funds - Fund balance \$ 811,334

Endowment Funds - Fund balance \$ 19,077

Highland County Joint Township District Hospital

Consolidated Statement of Revenue and Expenses of General Fund Year Ended December 31, 2000

Operating Revenue

Net patient service revenue (Note 8)	\$ 29,596,216
Other operating revenue	<u>503,521</u>

Total operating revenue 30,099,737

Operating Expenses

Salaries and wages	10,852,681
Employee benefits	2,642,422
Supplies	3,644,914
Purchased services	3,135,639
Physician fees	2,798,595
Bad debt expense	2,828,589
Depreciation	1,738,546
Professional fees	361,770
Utilities	615,936
Interest	797,704
Insurance	169,350
Other	<u>405,649</u>

Total operating expenses 29,991,795

Income from Operations 107,942

NonOperating Gains (Losses)

Investment income	245,927
Loss on disposal of assets	<u>(40,273)</u>

Total nonoperating gains (losses) 205,654

Revenue and gains in excess of expense: \$ 313,596

Highland County Joint Township District Hospital

Consolidated Statement of Changes in Fund Balances December 31, 2000

	<u>General Fund</u>	<u>Donor Restricted</u>	
		<u>Specific Purpose Funds</u>	<u>Endowment Funds</u>
Balance, beginning of year	\$ 11,146,824	\$ 740,973	\$ 15,880
Prior-period adjustments (Note 11):			
Error - expensing of physician guarantees or advances	296,087	-	-
Error - unrecorded loss of equity of investment in subsidiary	(57,124)	-	-
Balance, beginning of year as restated	11,385,787	740,973	15,880
Revenue and gains in excess of expenses	313,596	-	-
Investment income - restricted	-	70,361	3,197
Increase in fund balances	313,596	70,361	3,197
Balance, end of year	<u>\$ 11,699,383</u>	<u>\$ 811,334</u>	<u>\$ 19,077</u>

Highland County Joint Township District Hospital

Consolidated Statement of Cash Flows of General Fund Year Ended December 31, 2000

Cash Flows from Operating and Nonoperating Activities	
Cash received from patients and third-party payors	\$ 25,697,079
Cash payments to suppliers for services and goods	(9,853,447)
Cash payments to employees for services	(13,306,196)
Other operating revenue received	463,376
Interest paid	<u>(797,259)</u>
Net cash provided by operating and nonoperating activities	2,203,553
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(2,508,106)
Principal payments on bonds	(125,000)
Principal payments on capital leases	(192,371)
Proceeds from sale of capital assets	<u>1,519</u>
Net cash used in capital and related financing activities	(2,823,958)
Cash Flows from Noncapital and Related Financing Activities	
Renovations/Construction to Hospital financed by long-term debt	<u>103,435</u>
Net cash used in noncapital and related financing activities	103,435
Cash Flows from Investing Activities	
Advances to physicians-net of forgiveness	(240,030)
Income received on investments	245,927
Proceeds from sale of investments	<u>957,164</u>
Net cash provided by investing activities	963,061
Net Increase in Cash and Cash Equivalents	446,091
Cash and Cash Equivalents - Beginning of year	<u>820,969</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,267,060</u></u>

Highland County Joint Township District Hospital

Consolidated Statement of Cash Flows of General Fund (Continued) Year Ended December 31, 2000

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

Cash Flows from Operating Activities and Nonoperating Gains	
Income from operations	\$ 107,942
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization	1,738,546
Provision for bad debts	2,828,589
(Increase) decrease in assets:	
Patient receivables	(2,406,957)
Other receivables	(59,524)
Inventory	41,823
Prepaid expenses	(61,920)
Accrued interest receivable	19,379
Increase (decrease) in liabilities:	
Accounts payable	(471,986)
Accrued payroll	188,907
Accrued expenses	218,229
Estimated amounts due third-party payors	<u>60,525</u>
Net cash provided by operating activities and nonoperating	<u>\$ 2,203,553</u>
Supplemental Cash Flow Information:	
Property additions financed through capital leases	<u>\$ 300,574</u>

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 1 – Nature of Business and Significant Accounting Policies

Reporting Entity/Basis of Consolidation – The accompanying consolidated financial statements include the accounts of Highland County Joint Township District Hospital (the Hospital) and its two subsidiaries, Highland District Hospital Foundation and Highland District Professional Services Corporation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

Highland County Joint Township District Hospital is a 63-bed, acute care facility located in Hillsboro, Ohio serving patients 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 District Hospital Board of Trustees who appoint 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 (Foundation) as a not-for-profit corporation under the Internal Revenue Code 501(c)(3). The Foundation is controlled by the Hospital's Board of Governors.

Also during 1999, the Hospital formed the Professional Services Corporation (PSC), a for-profit corporation, to further the charitable purposes of the Foundation and the Hospital.

Basis of Presentation – The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommend in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to accounting principles generally accepted in the United States of America for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents – Cash and cash equivalents are defined as short-term highly, liquid investments purchased with initial maturities of three months or less. Cash and cash equivalents included in assets limited as to use are not considered cash and cash equivalents for purposes of the statements of cash flows of general funds.

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

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 1 – Nature of Business and Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use – Assets limited to use 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 general obligation bonds. Amounts required to meet current obligations are recognized as current assets.

Property and Equipment – Property, plant and equipment 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 estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Cost of maintenance and repairs are charged to expense when incurred.

Unamortized Financing Costs – Cost incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding using the straight-line method. Amortization expense totaled \$2,447 in 2000.

Intangible Assets – Intangible assets are related to the acquisition of a physician practice in 1999 and are being amortized on a straight-line basis over a 10-year period. Amortization expense totaled \$32,083 in 2000.

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

Use of Estimates – The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 1 – Nature of Business and Summary of Significant Accounting Policies (Continued)

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

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

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. Peripheral or incidental transactions are reported as nonoperating gains and losses.

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

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

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

Donor-Restricted Funds – The Hospital has received certain restricted donations and has established restricted funds in accordance with the donors' stipulations. Investments held in the specific-purpose funds and income earned thereon are to be used for the acquisition of property and equipment. Funds expended during the year for property and equipment are recognized as transfers to the general fund balance. The principal of investments held in the endowment fund may not be expended. Funds restricted by donors for specific operating purposes are reported in other operating revenues when expended for the designated purposes.

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 2 – Deposits and Investments

Cash deposits, assets whose use is limited, and investments (all of which are considered available for sale) of the Hospital at December 31, 2000, are composed of the following:

	Cash and Cash Equivalents	Assets Limited As to Use	Restricted Cash and Cash Equivalents	Fair Value	Amortized Historical Cost
Deposits and money market accounts	\$ 975,166	\$ 291,275	\$ 619	\$ 1,267,060	\$ 1,266,915
Common Stock	-	62,749	3,267	66,016	13,250
U.S. government obligations	-	3,494,541	818,990	4,313,531	4,264,488
Total	<u>\$ 975,166</u>	<u>\$ 3,848,565</u>	<u>\$ 822,876</u>	<u>\$ 5,646,607</u>	<u>\$ 5,544,653</u>

Amounts summarized by fund type:	Fair value	Amortized Historical Cost
General funds	\$ 4,823,731	\$ 4,726,662
Specific purpose funds	803,799	795,034
Endowment funds	19,077	22,957
	<u>\$ 5,646,607</u>	<u>\$ 5,544,653</u>

At December 31, 2000, the bank balance of the Hospital's demand deposits and money market accounts totaled \$2,012,811. Of this balance, \$189,307 was covered by federal depository insurance and \$1,823,504 was collateralized with securities held in a pooled collateral account at the pledging bank.

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

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 3 – Patient Accounts Receivable

The details of patient accounts receivable at December 31, 2000 are set forth below:

Total patient accounts receivable	\$ 13,337,388
Less allowance for:	
Uncollectible accounts	(6,166,000)
Contractual adjustments	<u>(2,231,000)</u>
Net patient accounts receivable	<u>\$ 4,940,388</u>

Note 4 – Notes Receivable

Notes receivable represents loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including interest at the prime lending rate and are unsecured. A majority of the physician notes receivable are forgiven over time under the terms as specified in the physician loan agreement. A summary of these amounts outstanding at December 31, 2000 is as follows:

Notes receivable	\$ 536,117
Less: Current portion	<u>(154,598)</u>
Long term portion	<u>\$ 381,519</u>

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 5 – Property, Plant, and Equipment

Property, plant, and equipment consists of the following at December 31, 2000:

		<u>Depreciable Life-Years</u>
Land	\$ 15,437	
Land improvements	749,789	15-40
Buildings	10,492,171	40
Equipment	12,948,025	3-25
Equipment - capital leases	803,029	5
Construction in progress	<u>307,381</u>	
Total	25,315,832	
Less accumulated depreciation	<u>(9,575,409)</u>	
Property, plant, and equipment-net	<u>\$ 15,740,423</u>	

Depreciation expense totaled \$ 1,704,016 in 2000. Construction in progress at December 31, 2000 consists of renovations to the second floor of the existing building. The estimated costs to complete the project approximate \$250,000 at December 31, 2000.

Note 6 – Estimated Amounts due to Third Party Payers (Cost Report Settlements)

Approximately 52 percent of the Hospital's revenue from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 6 – Estimated Amounts due to Third Party Payers (Cost Report Settlements)(Continued)

Medicare – Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some outpatient services and defined capital costs related to outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for all outpatient services are based on the new prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000.

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

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

Note 7 – Long-Term Debt

Debt outstanding at December 31, 2000, consists of general obligation bonds for building construction issues. General obligation bonds of \$11,500,000 were issued in June 1999, and were used to repay the remaining obligations related to the Series 1990 and Series 1991 statewide pool lease program debt and \$6,000,000 of Hospital Facilities Temporary Revenue Bonds and have been used to finance the construction of the Eloise H. Yochum Medical Center, an expanded outpatient facility substantially completed in October 1999. Such bonds bear interest at 6.75 percent, with annual principal payments due through December 1, 2029 and are collateralized by essentially all equipment and future revenues of the Hospital.

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

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 7 – Long-Term Debt (Continued)

The Hospital leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 5.82% to 6.0% through January 2005, 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 to the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation expense for 2000 and 1999.

Bonds payable and equipment under capital leases are summarized at December 31, 2000 as follows:

	<u>2000</u>
Hospital Facilities Revenue Bonds, Series 1999	\$ 11,375,000
Obligations under capital lease	<u>234,583</u>
Total	11,609,583
Less current portion	<u>(201,109)</u>
Long-term portion	<u>\$ 11,408,474</u>

The following is a schedule of bond principal and future minimum lease payments as of December 31, 2000:

	Bond Payable	Lease Payable
2001	\$ 125,000	\$ 87,753
2002	150,000	87,753
2003	150,000	41,805
2004	150,000	37,628
2005	175,000	3,137
Thereafter	<u>10,625,000</u>	<u>-</u>
Total payments	<u>\$ 11,375,000</u>	258,076
Less amount representing interest		<u>(23,493)</u>
Net minus lease payments		<u>\$ 234,583</u>

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 7 – Bonds Payable and Capital Lease Obligations (Continued)

At December 31, 2000, the carrying value of equipment under capital lease obligations is as follows:

Cost of equipment under capital lease	\$ 803,029
Less accumulated amortization	<u>545,163</u>
Net carrying amount	<u>\$ 257,866</u>

Note 8 – Net Patient Service Revenue

Net patient service revenue consists of the following:

Revenue:	
Inpatient services:	
Routine services	\$ 4,581,903
Ancillary services	12,773,843
Outpatient services	<u>28,652,130</u>
Total patient revenue	46,007,876
Revenue deductions:	
Provision for contractual allowances	15,168,622
Provision for charity care	<u>1,243,038</u>
Total revenue deductions	16,411,660
Total net patient service revenue	<u>\$ 29,596,216</u>

Note 9 – Employee Benefits (Defined Benefit Pension Plan)

Plan Description – The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement System. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the PERS Board of Trustees. PERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-PERS(7377).

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 9 – Employee Benefits (Defined Benefit Pension Plan) (Continued)

Funding Policy – Plan members are required to contribute 8.50 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The rate was 13.55 percent through June 30, 2000 and a rolled-back rate of 8.13 percent from July 1, 2000 to December 31, 2000. The contribution requirement of plan members and the Hospital is established and may be amended by the PERS Board of Trustees. The Hospital's contribution to PERS for the years ended December 31, 2000, 1999, and 1998, were \$1,030,736, \$1,234,260 and \$1,140,985, respectively.

Post-retirement Benefits – Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for funding of post-retirement contributions. The 2000 employer contribution rate for local government employer units was 13.55 percent of covered payroll through June 30, 2000 and 8.13 percent of covered payroll from July 1, 2000 to December 31, 2000. Of this amount, 4.3 percent was the portion that was used to fund health care throughout the year. The portion of the employer's contribution used to fund post-employment benefits was \$408,790.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

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

The number of active contributing participants during 2000 was 401,339. As of December 31, 1999, the actuarial value of the Retirement System's net assets available for OPEB was \$10,806 million. The actuarially accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used, were \$12,474 million and 1,668 million, respectively.

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 10 – Risk Management

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

The Hospital is insured against medical malpractice claims under an claim-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital 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 Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

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

The Hospital is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

Note 11 – Prior Period Adjustment

The Hospital's fund balance at the beginning of 2000 has been adjusted to correct two errors made in 1999. In 1999, physician guarantee payments were fully expensed in the year provided instead of being amortized over the period of the guarantee and forgiveness period. The effect of the restatement would have been to increase consolidated net income for 1999 by \$296,087. The second error was to record the loss of their subsidiary of \$57,124.

Note 12 – Subsequent Event

On January 26, 2001, the Hospital obtained \$700,000 of Hospital Facilities Revenue Bonds, Series 2001 from a bank to finance the construction of the Edith Brown Pavilion. The bonds are payable in monthly installments of \$13,559, which includes interest at 6.08 percent, beginning February 26, 2001. The bonds are secured by future revenues of the Edith Brown Pavilion (Hospital).

Highland County Joint Township District Hospital

Notes to Consolidated Financial Statements December 31, 2000

Note 13 – Litigation

The Hospital has filed a countersuit against the constructor and a third-party complaint against the architect, construction manager, and manufacturer of the cladding used on the Hospital Health Care Center addition. The countersuit was filed in response to a suit filed by the general contractor of the Health Care Center for non-payment. The suit is based on the substantial damages caused to the Hospital's property because of defects in the design and construction of the Health Care Center addition. At this time, however, no estimate can be made of the time or the amount, if any, of ultimate recovery. The amount of the contract that remains unpaid has been accrued as of December 31, 2000.

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Additional Information

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

We have audited the consolidated financial statements of Highland County Joint Township District Hospital for the year ended December 31, 2000. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the basic consolidated financial statements. The consolidating 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 consolidated financial statements taken as a whole.

Plante & Moran, LLP

April 27, 2001

Highland County Joint Township District Hospital

	Hospital	Foundation	PSC	Eliminations	Total
	General Funds				
Assets					
Current Assets					
Cash and cash equivalents	\$905,797	\$6,329	\$63,040	\$ -	\$975,166
Assets limited as to use	696,009	-	-	-	696,009
Patient accounts receivable, net	4,869,989	-	70,399	-	4,940,388
Intercompany receivable	175,689	-	-	(175,689)	-
Inventories	321,343	-	-	-	321,343
Prepaid expenses and other assets	157,937	-	20,639	-	178,576
Accrued interest receivable	36,405	-	-	-	36,405
Notes receivable, current portion	154,598	-	-	-	154,598
Other receivables	16,602	-	15,615	-	32,217
Total current assets	7,334,369	6,329	169,693	(175,689)	7,334,702
Assets Limited as to Use					
Under debt agreement	1,341,784	-	-	-	1,341,784
By Board for employee benefits	155,107	-	-	-	155,107
By Board for capital improvements	2,351,674	-	-	-	2,351,674
Total assets limited as to use	3,848,565	-	-	-	3,848,565
Less amounts to meet current construction obligations	(696,009)	-	-	-	(696,009)
Assets limited to use, noncurrent portion	3,152,556	-	-	-	3,152,556
Property, Plant and Equipment, Net	15,581,507	-	158,916	-	15,740,423
Notes Receivable	381,519	-	-	-	381,519
Intangible Assets	-	-	140,000	-	140,000
Unamortized Financing Costs, Net	160,214	-	-	-	160,214
Other Investments	257,636	90,205	-	(347,841)	-
Total	\$ 26,867,801	\$ 96,534	\$ 468,609	\$ (523,530)	\$ 26,909,414
Donor-Restricted Funds					
Specific Purpose Funds					
Investments	803,799	-	-	-	803,799
Accrued interest receivable	7,535	-	-	-	7,535
Total specific purpose funds	\$ 811,334	\$ -	\$ -	\$ -	\$ 811,334
Endowment Funds					
Investments	\$ 19,077	\$ -	\$ -	\$ -	\$ 19,077

Highland County Joint Township District Hospital

Combining Schedule of Balance Sheet December 31, 2000

	Hospital	Foundation	PSC	Eliminations	Total
	General Funds				
Liabilities and Fund Balances					
Current Liabilities					
Current portion of long-term debt	\$201,109	\$ -	\$ -	\$ -	\$201,109
Accounts payable - trade	1,198,412	-	30,342	-	1,228,754
Intercompany payable	-	-	175,689	(175,689)	-
Accounts payable - construction	494,900	-	-	-	494,900
Accrued expenses - employee compensation	1,181,425	-	14,742	-	1,196,167
Accrued expenses - other	450,942	-	-	-	450,942
Estimated amounts due third-party payors	229,685	-	-	-	229,685
Total current liabilities	3,756,473	-	220,773	(175,689)	3,801,557
Long-term Debt, Net					
Current Portion (Note 5)	11,408,474	-	-	-	11,408,474
Fund Balance, General Funds	11,702,854	96,534	247,836	(347,841)	11,699,383
Total Liabilities and Fund Balances	\$ 26,867,801	\$ 96,534	\$ 468,609	\$ (523,530)	\$ 26,909,414

	Donor-Restricted Funds				
Specific-Purpose Funds - Fund Balance	\$ 811,334	\$ -	\$ -	\$ -	\$ 811,334
Endowment Funds - Fund balance	\$ 19,077	\$ -	\$ -	\$ -	\$ 19,077

Highland County Joint Township District Hospital

Combining Schedule of Revenue and Expenses of General Fund December 31, 2000

	<u>Hospital</u>	<u>Foundation</u>	<u>PSC</u>	<u>Eliminating</u>	<u>Total</u>
Net Patient Service Revenue	\$29,325,416	\$ -	\$ 270,800	\$ -	\$29,596,216
Other Operating Revenue	503,521	-	-	-	503,521
Total Revenue	29,828,937	-	270,800	-	30,099,737
Operating Expenses					
Salaries and wages	10,511,934	-	340,747	-	10,852,681
Employee benefits	2,596,925	-	45,497	-	2,642,422
Supplies	3,615,260	-	29,654	-	3,644,914
Purchased services	3,115,994	-	19,645	-	3,135,639
Physician fees	2,798,595	-	-	-	2,798,595
Bad debt expense	2,828,589	-	-	-	2,828,589
Depreciation	1,697,985	-	40,561	-	1,738,546
Professional fees	361,770	-	-	-	361,770
Utilities	600,683	-	15,253	-	615,936
Interest	797,704	-	-	-	797,704
Insurance	169,350	-	-	-	169,350
Other	296,191	4,147	105,311	-	405,649
Total operating expenses	29,390,980	4,147	596,668	-	29,991,795
Income (Loss) from Operations	437,957	(4,147)	(325,868)	-	107,942
Non-Operating Gains (Losses)					
Investment income	244,477	422	1,028	-	245,927
Loss on Disposal of Assets	(40,273)	-	-	-	(40,273)
Total non-operating gains (losses)	204,204	422	1,028	-	205,654
Equity in Loss of Consolidated Subsidiary	(324,840)	-	-	324,840	-
Revenue and Gains in Excess of Expenses (Expenses in Excess of Revenues and Gains)	\$ 317,321	\$ (3,725)	\$ (324,840)	\$ 324,840	\$ 313,596

Report Letter on Compliance with Laws and Regulations and Internal Control – Basic Financial Statements

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

We have audited the financial statements of Highland County Joint District Hospital and subsidiaries as of and for the year ended December 31, 2000, and have issued our report thereon dated April 27, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Highland County Joint District Hospital financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Condition – During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital published notice in local newspapers stating their financial report for 1999 was available for public inspection at the office of the chief fiscal officer.

Recommendation – Management should publish such notice in all local newspapers within the area representative of the townships that are members of the Hospital.

Internal Control Over Financial Reporting

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

We have issued a letter of recommendations to management regarding certain financial operating and efficiency matters.

This report is solely intended for the information and use of the Auditor of the State of Ohio, Board of Trustees and Board of Governors of Highland County Joint District Hospital, and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



April 27, 2001



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OFFICE OF THE AUDITOR

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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
AUGUST 7, 2001**