HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Mary Taylor, CPA
Auditor of State

Board of Trustees and Hospital Board of Governors
Highland County Joint Township Hospital
1275 N. High Street
Hillsboro, Ohio 45133

We have reviewed the *Report of Independent Auditors* of the Highland County Joint Township Hospital, prepared by Blue & Co., LLC, for the audit period January 1, 2008 through December 31, 2008. 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 is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 20, 2009

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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CPAs / ADVISORS

blue

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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 combined balance sheets of Highland County Joint Township Hospital District (the Hospital) as of December 31, 2008 and 2007, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2008 and 2007, and the combined 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 April 29, 2009 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 vii is not a required part of the basic combined 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

April 29, 2009

The discussion and analysis of Highland County Joint Township Hospital District's (the Hospital) combined financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2008 and 2007. The financial statements reflect combined information for the Hospital and blended component units, therefore, the Management's discussion and analysis will focus on the combined 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.

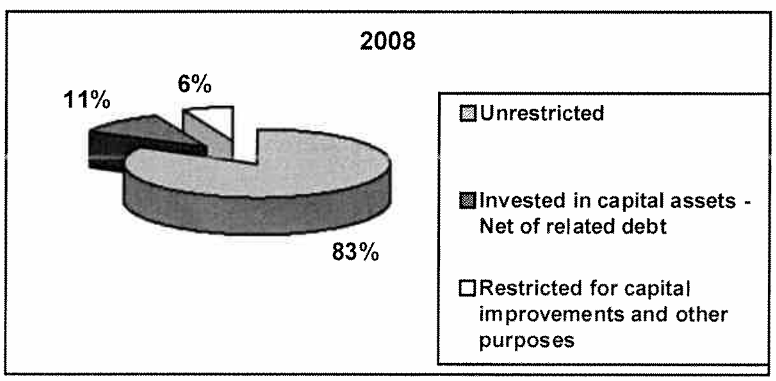
Using This Annual Report

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, 2008. Total assets increased $1,149,804 in 2008 while total liabilities decreased $264,666. Net assets increased $1,414,470, or 7.8%, in 2008. The increase in net assets resulted primarily from management of operating expenses.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2008.



For the year ended December 31, 2008, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of $1,414,470 compared to a $760,572 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, 2008:

	December 31		
	2008	2007	2006
Assets:			
Current assets	$ 15,906,395	$ 17,029,368	$ 16,369,277
Noncurrent assets	8,112,810	5,849,100	4,067,993
Capital assets	14,839,481	14,830,414	16,031,743
Total assets	$ 38,858,686	$ 37,708,882	$ 36,469,013
Liabilities:			
Current liabilities	$ 6,016,506	$ 5,692,182	$ 3,394,701
Long-term liabilities	13,404,578	13,993,568	15,811,752
Total liabilities	$ 19,421,084	$ 19,685,750	$ 19,206,453
Net assets:			
Invested in capital assets - net of debt	$ 2,183,207	$ 1,386,052	$ 576,652
Restricted assets	1,202,882	1,120,166	1,034,912
Unrestricted	16,051,513	15,516,914	15,650,996
Total net assets	$ 19,437,602	$ 18,023,132	$ 17,262,560

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	Year Ended December 31		
	2008	2007	2006
Operating revenues			
Net patient service revenue	$ 44,565,245	$ 43,977,443	$ 43,191,445
Other operating revenue	853,671	701,492	725,122
Total operating revenues	45,418,916	44,678,935	43,916,567
Operating expenses			
Salaries and wages	18,042,680	19,286,255	19,079,935
Employee benefits	6,317,884	6,457,125	6,212,468
Supplies	6,716,226	6,100,842	5,952,625
Purchased services	4,608,772	4,257,777	4,997,029
Physician fees	1,835,338	1,764,401	1,291,196
Depreciation and amortization	2,359,209	2,428,521	2,384,809
Professional fees	238,692	238,848	148,216
Utilities	1,065,918	897,678	917,653
Insurance	571,112	619,975	737,007
Other	1,222,347	1,266,486	1,280,730
Total operating expenses	42,978,178	43,317,908	43,001,668
Income from operations	2,440,738	1,361,027	914,899
Nonoperating gains (losses)			
Investment income	305,987	554,322	559,622
Capital grants	53,765	13,817	60,154
Interest earned on restricted assets	39,734	53,208	35,181
Interest expense	(971,835)	(818,383)	(979,198)
Other nonoperating gains	44,720	(32,658)	1,557
Total nonoperating gains (losses)	(527,629)	(229,694)	(322,684)
Excess of revenue over expenses	1,913,109	1,131,333	592,215
Change in interest rate swap	(498,639)	(370,761)	-
Change in net assets	1,414,470	760,572	592,215
Net assets - beginning of year	18,023,132	17,262,560	16,670,345
Net assets - end of year	$ 19,437,602	$ 18,023,132	$ 17,262,560

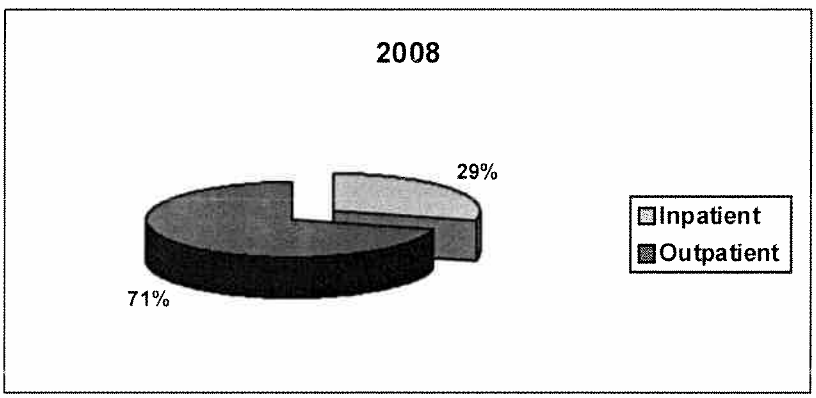
Operating Revenues

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 1.3% in 2008. This was attributable to a modest increase in third-party payments offset by 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 43% in 2007 to 45% of gross revenue in 2008.

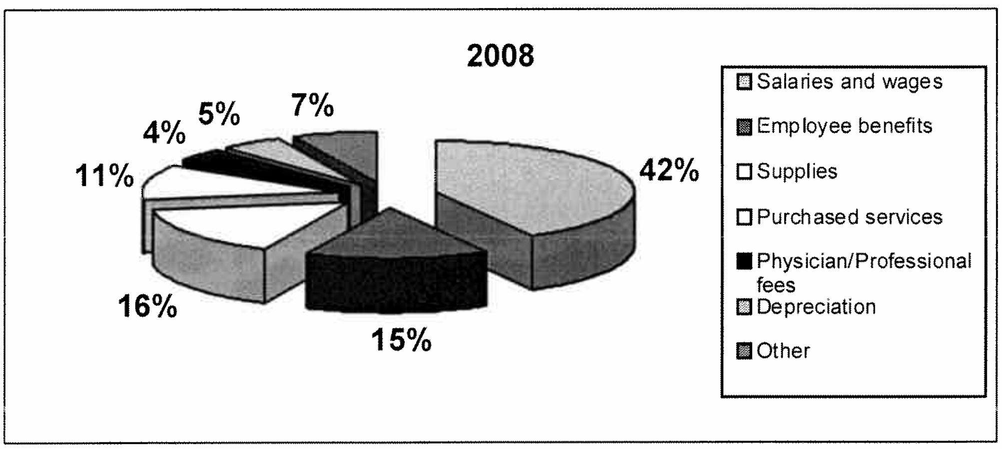
- The following is a graphic illustration of patient revenues by source:



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 2007 to 2008 were the result of the following factors:

- Salary costs decreased 6.4% due primarily to decreases in full time equivalents, offset by regular increases in pay rates.
- Benefits costs decreased 2.2% due to decreases in full time equivalents, offset by continued increases in group health insurance premiums.
- Supplies increased 10.1%, due to inflationary increases in supplies purchased and increased patient revenue.
- Purchased service cost increased 8.2%, due primarily to purchased neurology services.
- 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 usually consist primarily of investment income including realized and unrealized gains and losses. Other non-operating losses increased from 2007 to 2008 primarily due to a decrease in investment income in 2008.

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		
	2008	2007	2006
Cash provided by (used in):			
Operating and nonoperating activities	$ 5,611,421	$ 5,628,469	$ 1,325,412
Capital and related financing activities	(4,020,346)	(4,043,573)	(3,601,793)
Investing activities	(258,067)	(2,410,735)	640,304
Total	1,333,008	(825,839)	(1,636,077)
Cash - beginning of year	10,202,846	11,028,685	12,664,762
Cash - end of year	$ 11,535,854	$ 10,202,846	$ 11,028,685

Capital Asset and Debt Administration

Capital Assets

At December 31, 2008, the Hospital had $36,839,703 invested in capital assets, net of accumulated depreciation of $22,000,222. Depreciation and amortization totaled $2,359,209 for the current year compared to $2,428,521 last year.

Debt

At December 31, 2008, the Hospital had $12,656,274 in long-term debt outstanding as compared to $13,444,362 at December 31, 2007 and $15,455,091 at December 31, 2006.

The Hospital issued $10,180,000 of variable rate Hospital Facilities Revenue Refunding Bonds in 2007 to refund a total of $10,450,000 1999 bonds. The Hospital continues to pay down its other debt obligations as prescribed in the debt schedules. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Economic Factors that Will Affect the Future

On December 1, 2005, the Hospital was granted Critical Access status by the Centers for Medicare and Medicaid Services (CMS). As a result, the Hospital 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.

Thomas A. Degen
Chief Financial Officer

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	$ 9,078,866	$ 9,286,853
Assets limited as to use - current portion	234,855	272,862
Patient accounts receivable, net of allowances for uncollectible accounts; $2,597,851 in 2008 and $2,321,099 in 2007	5,093,571	5,703,921
Inventories	493,976	377,729
Prepaid expenses and other current assets	930,232	806,796
Accrued interest receivable	29,340	30,714
Notes and grants receivable - current portion	45,555	550,493
Total current assets	15,906,395	17,029,368
Asset whose use is limited		
Restricted by contributors for capital improvements and other purposes	1,185,409	1,102,693
Principal of permanent endowments	17,473	17,473
Designated by Board for capital improvements and employee benefits	5,660,917	3,651,512
Held by trustee under bond indenture agreements	715,868	726,582
Total assets limited as to use	7,579,667	5,498,260
Less amounts to meet current obligations	(234,855)	(272,862)
Total assets limited as to use - noncurrent portion	7,344,812	5,225,398
Capital assets	14,839,481	14,830,414
Other assets		
Notes and grants receivable - net of current portion	491,264	285,000
Intangible assets	93,000	129,000
Unamortized financing cost - net	183,734	209,702
Total other assets	767,998	623,702
Total assets	$ 38,858,686	$ 37,708,882

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Current portion of long-term debt	$ 1,129,583	$ 1,111,904
Accounts payable	1,867,825	1,316,327
Accrued liabilities	1,860,101	2,625,074
Estimated amounts due to third-party payors	1,158,997	638,877
Total current liabilities	6,016,506	5,692,182
Interest rate swap liability	869,400	370,761
Physician recruitment liability	-	285,000
Compensated absences	1,008,487	1,005,349
Long-term debt, net of current portion	11,526,691	12,332,458
Total liabilities	19,421,084	19,685,750
Net assets		
Invested in capital assets - net of related debt	2,183,207	1,386,052
Restricted:		
Expendable for capital improvements and other purposes	1,185,409	1,102,693
Nonexpendable permanent endowments	17,473	17,473
Unrestricted	16,051,513	15,516,914
Total net assets	19,437,602	18,023,132
Total liabilities and net assets	$ 38,858,686	$ 37,708,882

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating revenues		
Net patient service revenue	$ 44,565,245	$ 43,977,443
Other operating revenue	853,671	701,492
Total operating revenues	45,418,916	44,678,935
Operating expenses		
Salaries and wages	18,042,680	19,286,255
Employee benefits	6,317,884	6,457,125
Supplies	6,716,226	6,100,842
Purchased services	4,608,772	4,257,777
Physician fees	1,835,338	1,764,401
Depreciation and amortization	2,359,209	2,428,521
Professional fees	238,692	238,848
Utilities	1,065,918	897,678
Insurance	571,112	619,975
Other	1,222,347	1,266,486
Total operating expenses	42,978,178	43,317,908
Income from operations	2,440,738	1,361,027
Nonoperating gains (losses)		
Investment income	305,987	554,322
Capital grants	53,765	13,817
Interest earnings on restricted assets	39,734	53,208
Interest expense	(971,835)	(818,383)
Other nonoperating gains	44,720	(32,658)
Total nonoperating gains (losses)	(527,629)	(229,694)
Excess of revenue over expenses	1,913,109	1,131,333
Other changes in net assets		
Change in interest rate swap	(498,639)	(370,761)
Change in net assets	1,414,470	760,572
Net assets - beginning of year	18,023,132	17,262,560
Net assets - end of year	$ 19,437,602	$ 18,023,132

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 45,695,715	$ 44,223,406
Cash payments to suppliers for services and goods	(15,909,216)	(13,538,615)
Cash payments to employees for services	(25,028,749)	(25,757,814)
Other operating revenue	853,671	701,492
Net cash flows from operating activities	5,611,421	5,628,469
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(2,319,108)	(1,063,093)
Proceeds from bond issuance	-	10,180,000
Loss on disposal of capital assets	4,920	-
Deferred amount on refunding	323,259	(622,505)
Bond issuance costs	-	(165,185)
Principal payments on bonds	(838,088)	(11,282,626)
Interest paid on long-term debt - net of capitalized interest	(971,835)	(818,383)
Principal payments on capital leases	(273,259)	(285,598)
Capital grants received	53,765	13,817
Net cash flows from capital and related financing activities	(4,020,346)	(4,043,573)
Cash flow from investing activities		
Advances to physicians - net of forgiveness	(108,096)	(795,786)
Income received on investments	345,721	607,530
Income from other nonoperating gains	44,720	(32,658)
Purchases of investments	(9,267,216)	(16,357,147)
Proceeds from sale of investments	8,726,804	14,167,326
Net cash flows from investing activities	(258,067)	(2,410,735)
Change in cash and cash equivalents	1,333,008	(825,839)
Cash and cash equivalents - beginning of year	10,202,846	11,028,685
Cash and cash equivalents- end of year	$ 11,535,854	$ 10,202,846
Balance sheet classification of cash and cash equivalents		
Current assets - cash	$ 9,078,866	$ 9,286,853
Assets limited as to use	2,456,988	915,993
Total	$ 11,535,854	$ 10,202,846
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 985,590	$ 855,030
Supplemental disclosure of non cash activities		
Amortization of bond financing costs	$ 25,968	$ 164,099

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008	2007
Cash flows from operating activities		
Income from operations	$ 2,440,738	$ 1,361,027
Adjustments to reconcile income from operations		
to net cash flows from operating activities		
Depreciation and amortization	2,359,209	2,428,521
Provision for bad debt	4,572,409	4,029,466
Change in operating assets and liabilities		
Patient receivables	(3,962,059)	(4,450,323)
Inventories	(116,247)	34,176
Prepaid expenses and other	(86,062)	78,394
Accounts payable	551,498	282,897
Accrued expenses and compensated absenses	(668,185)	1,197,491
Estimated amounts due from third-party payors	520,120	666,820
Net cash from operating activities	$ 5,611,421	$ 5,628,469

See accompanying notes to combined financial statement.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

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

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

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

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

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

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

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 that provide a comprehensive one-line look at the Organization's financial activities. The Organization also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

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

Inventories

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

Assets Whose Use is Limited

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

The Hospital holds only Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: *Fair Value Measurements.* Investment income or loss (including 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 Hospital 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 Hospital 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 $25,968 and $164,099 in 2008 and 2007, 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 Hospital may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

Restricted Resources

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

Notes and Grants Receivable

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice for a specified term. Under such agreements, the Hospital 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 Hospital and the physician be terminated prior to the end date agreed upon by both parties, the Hospital will pursue collection of any outstanding advances.

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 Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others.

Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

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

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

Income from Operations

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

Charity Care

The Hospital provides care to patients who meet certain criteria under the Hospital's charity policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone for charity care totaled $2,134,215 and $2,179,348 for 2008 and 2007, respectively.

Pension Plan

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

Federal Income Tax

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

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

Beneficial Interest in Perpetual Trust

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

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments which are measured using quoted prices in active markets.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the consolidated results of operations and consolidated financial position.

Fair values of financial instruments at December 31, 2008 follow:

Description:		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$	98,912	5,023,767	-

3. DEPOSITS AND INVESTMENTS

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

	2008		2007	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	$ 11,535,854	$ 11,535,854	$ 10,202,846	$ 10,202,846
Stocks	98,912	5,787	117,472	5,787
U. S. government obligations	5,023,767	4,982,634	4,464,795	4,443,991
Total	$ 16,658,533	$ 16,524,276	$ 14,785,113	$ 14,652,624

	2008		2007	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 9,078,866	$ 9,078,866	$ 9,286,853	$ 9,286,853
Assets limited as to use	7,579,667	7,445,410	5,498,260	5,365,771
Total	$ 16,658,533	$ 16,524,276	$ 14,785,113	$ 14,652,624

At December 31, 2008, the bank balance of the Organization's demand deposits and money market accounts totaled $17,190,791. Of this balance, $908,764 was covered by federal depository insurance and $16,282,027 was collateralized with securities held in pooled collateral accounts at the pledging banks.

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

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

	Carrying Amount	Maturities < than 1 year	Maturities 1-5 years
December 31, 2008			
U.S. Government obligations	$ 5,023,767	$ 4,301,818	$ 721,949

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

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

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

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2008	2007
Total patient accounts receivable	$ 11,370,500	$ 12,091,897
Less allowance for:		
Uncollectible accounts	(2,597,851)	(2,321,099)
Contractual adjustments	(3,679,078)	(4,066,877)
Net patient accounts receivable	$ 5,093,571	$ 5,703,921

5. CAPITAL ASSETS

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

	2007	Additions	Retirements / Transfers	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	17,042,478	2,066,100	(479,836)	18,628,742
Equipment - capital leases	2,238,279	-	-	2,238,279
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	11,440,770	1,524,808	(238,866)	12,726,712
Equipment - capital leases	1,125,323	-	-	1,125,323
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

Capital asset activity for the year ended December 31, 2007 was as follows:

	2006	Additions	Retirements	2007
Land	$ 15,437	$ 9,500	$ -	$ 24,937
Land improvements	683,709	-	-	683,709
Buildings and improvements	14,977,728	53,033	(20,529)	15,010,232
Equipment	16,824,636	993,614	(775,772)	17,042,478
Equipment - capital leases	2,238,279	-	-	2,238,279
Construction in progress	-	6,946	-	6,946
Total capital assets	34,739,789	1,063,093	(796,301)	35,006,581
Less accumulated depreciation				
Land improvements	552,994	46,886	-	599,880
Buildings and improvements	6,254,550	776,174	(20,530)	7,010,194
Equipment	10,775,179	1,461,160	(795,569)	11,440,770
Equipment - capital leases	1,125,323	-	-	1,125,323
Total accumulated depreciation	18,708,046	2,284,220	(816,099)	20,176,167
Capital assets, net	$ 16,031,743	$ (1,221,127)	$ 19,798	$ 14,830,414

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 56% of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of 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 2006.

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. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements.

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

In 1999, revenue bonds of $11,500,000 were issued to finance the construction of the Hospital's Health Care Center, an expanded outpatient facility substantially completed in October 1999. These bonds were refunded in 2007.

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

On 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 3.37% at December 31, 2008. The debt is collateralized by a letter of credit at Fifth Third Bank with a maximum credit amount of $3,522,904 at December 31, 2008.

The variable rate 2004 Bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be "put" back to the Bond Trustee, who would draw down on the letter of credit to pay down the 2004 Bonds. The reimbursement Agreement between the letter-of-credit bank and the Hospital provides for the Hospital to reimburse the letter-of-credit bank for any remarketing draws within 367 days. The letter of credit expires on May 30, 2010.

$10,180,000 of variable rate Hospital Facilities Revenue Refunding Bonds (interest at 1.65% at December 31, 2008) 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 Hospital uses derivative financial instruments principally to manage the risk of change in interest rates. During 2007, the Hospital entered into a cash flow hedge interest rate swap agreement. As a result of the swap, the Hospital locked in to an interest rate of 3.942% on $10,180,000 of the Series 2007 Hospital Facilities Revenue Refunding Bonds. The fair value of the interest rate swap at December 31, 2008 was a liability of $869,400. This liability has been recorded in long-term liabilities with the related loss on this arrangement deferred as a component of unrestricted net assets. The agreement expires on December 1, 2020.

The Hospital leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 4.99 % to 5.82 % through 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 2008 and 2007.

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

Long-term debt activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 1,197,184	$ -	$ (285,598)	$ 911,586	$ 273,258
Bonds and loans payable	14,257,907	10,180,000	(11,282,626)	13,155,281	838,646
Deferred amount on refunding	-	(622,505)	-	(622,505)	-
Total leases, bonds, and loans payable	$ 15,455,091	$ 9,557,495	$ (11,568,224)	$ 13,444,362	$ 1,111,904

The following is a schedule of bond and loan principal and interest and future minimum lease payments as of December 31, 2008:

	Bonds and Loans Payable	Bonds and Loans Interest	Lease Payable
2009	843,646	395,893	310,581
2010	849,210	367,472	310,581
2011	859,811	358,268	51,764
2012	865,426	287,996	-
2013	871,131	283,811	
2014-2018	4,472,525	952,863	-
2019-2023	3,285,490	226,959	-
2024-2025	269,955	2,023	
Total payments	12,317,194	2,875,286	672,926
Less deferred amount on refunding	(299,246)	-	-
Less amount representing interest	-	-	(34,600)
Total	$ 12,017,948	$ 2,875,286	$ 638,326

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

	2008	2007
Cost of equipment under capital lease	$ 2,708,966	$ 2,708,966
Lease accumulated amoritization	2,232,549	1,821,755
Net carrying amount	$ 476,417	$ 887,211

8. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Payroll and related amounts	$ 835,077	$ 1,462,148
Physician recruitment liability	308,039	439,187
Workers' compensation premiums	275,187	243,276
Pension	367,394	436,241
Grants	43,937	-
Interest	30,467	44,222
Total accrued liabilities	$ 1,860,101	$ 2,625,074

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	2008	2007
Revenue:		
Inpatient services:		
Routine services	6,828,332	$ 6,172,024
Ancillary services	12,290,326	10,462,494
Outpatient services	66,048,697	63,984,637
Total patient revenue	85,167,355	80,619,155
Revenue deductions:		
Provision for contractual allowances	33,895,486	30,432,898
Provision for bad debt allowances	4,572,409	4,029,466
Provision for charity care	2,134,215	2,179,348
Total revenue deductions	40,602,110	36,641,712
Total net patient service revenue	$ 44,565,245	$ 43,977,443

10. DEFINED BENEFIT PENSION PLAN

The Hospital participates in a state pension plan, the Ohio Public Employees Retirement System (OPERS), which covers substantially all employees.

OPERS administers three separate pension plans; The Traditional Pension Plan (TP)- a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD)- a defined contribution plan; and the Combined Plan (CO)- a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and Combined Plan; however healthcare benefits are not statutorily guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215, Telephone 1-800-222-7377.

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 14.0% and 10.0% respectively. The Hospital's contributions, representing 100% employer contributions, for the last three years are as follows:

Year	Contribution
2008	$ 2,064,612
2007	$ 2,173,677
2006	$ 2,155,163

In additions to the pension benefits described above, OPERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions.

OPERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The portion of the 2008 employer contribution rate of 14.00% used to fund healthcare was 7%. The total Hospital contribution used to fund health care was approximately $1,032,306 and $785,000 for the years ended December 31, 2008 and 2007, respectively.

OPEB 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.

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2008 was 363,503. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2008 was approximately $12.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately $29.8 billion and $17.0 billion, respectively, as of December 31, 2008.

The actuarial assumptions used to calculate these amounts are as follows:

- **Funding Method-** An entry age normally actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- **Assets Valuations Method-** All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or deprecation on investment assets.

- **Investment Return-** The investment assumption rate for 2008 was 6.5%.

- **Active Employee Total Payroll-** An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .5% to 6.3%.

- **Health Care-** Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4.0% for the next 7 years. In subsequent years, (8 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

The Health Care Preservation Plan (HCPP) adopted by OPERS Retirements Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

11. RISK MANAGEMENT

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

The Organization is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Organization bears the risk of the ultimate costs of any individual claims exceeding $1,000,000, or aggregate claims exceeding $3,000,000, for claims asserted in the policy year. In addition, the Organization has an umbrella policy with an additional $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 Hospital has purchased commercial insurance and/or participated in state-sponsored plans for coverage of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

ADDITIONAL FINANCIAL INFORMATION

CPAs ADVISORS

blue

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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 combined financial statements of Highland County Joint Township Hospital District as of December 31, 2008. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The information in the accompanying schedules on pages 26-31 is presented for the purpose of additional analysis of the combined 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 combined financial statements. The information has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

April 29, 2009

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING 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
Intangible 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 25.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING 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
Interest rate swap liability	869,400	-	-	-	-	-	869,400
Physician recruitment liability	-	-	-	-	-	-	-
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	19,087,324	-	273,061	70,984	-	(10,285)	19,421,084
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 other purposes	998,066	-	-	-	187,343	-	1,185,409
Nonexpendable permanent endowments	-	-	-	-	17,473	-	17,473
Unrestricted	15,538,652	92	207,340	224,578	80,851	-	16,051,513
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 25.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2007

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 9,113,900	$ 92	$ 63,755	$ 32,126	$ 76,980	$ -	$ 9,286,853
Assets limited as to use - current portion	272,862	-	-	-	-	-	272,862
Patient accounts receivable - net	5,464,495	-	202,416	37,010	-	-	5,703,921
Inventories	377,729	-	-	-	-	-	377,729
Prepaid expenses and other current assets	646,843	-	123,976	35,977	-	-	806,796
Accrued interest receivable	30,714	-	-	-	-	-	30,714
Notes and grants receivable - current portion	561,849	-	-	-	-	(11,356)	550,493
Total current assets	16,468,392	92	390,147	105,113	76,980	(11,356)	17,029,368
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	958,334	-	-	-	144,359	-	1,102,693
Principal of permanent endowments	-	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	3,651,512	-	-	-	-	-	3,651,512
Held by trustee under bond indenture agreements	726,582	-	-	-	-	-	726,582
Total assets limited as to use	5,336,428	-	-	-	161,832	-	5,498,260
Less amounts to meet current obligations	(272,862)	-	-	-	-	-	(272,862)
Total assets limited as to use - noncurrent portion	5,063,566	-	-	-	161,832	-	5,225,398
Capital assets - net	14,303,414	-	505,064	21,936	-	-	14,830,414
Other assets							
Notes and grants receivable - net of current portion	285,000	-	-	-	-	-	285,000
Intangible assets	-	-	-	129,000	-	-	129,000
Unamortized financing costs - net	209,702	-	-	-	-	-	209,702
Total other assets	494,702	-	-	129,000	-	-	623,702
Total assets	$ 36,330,074	$ 92	$ 895,211	$ 256,049	$ 238,812	$ (11,356)	$ 37,708,882

See report of independent auditors on other financial information on page 25.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2007

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	$ 1,103,258	$ -	$ 8,646	$ -	$ -	$ -	$ 1,111,904
Accounts payable	1,177,961	-	104,746	33,620	-	-	1,316,327
Accrued liabilities	2,445,085	-	119,889	71,456	-	(11,356)	2,625,074
Estimated amounts due to third-party payors	638,877	-	-	-	-	-	638,877
Total current liabilities	5,365,181	-	233,281	105,076	-	(11,356)	5,692,182
Interest rate swap liability	370,761		-	-	-	-	370,761
Physician recruitment liability	285,000		-	-	-	-	285,000
Compensated absences	992,085	-	11,166	2,098	-	-	1,005,349
Long-term debt - net of current portion	12,165,823	-	166,635	-	-	-	12,332,458
Total liabilities	19,178,850	-	411,082	107,174	-	(11,356)	19,685,750
Net assets							
Invested in capital assets - net of related debt	1,034,333	-	329,783	21,936	-	-	1,386,052
Restricted:							
Expendable for capital improvements and other purposes	958,334	-	-	-	144,359	-	1,102,693
Nonexpendable permanent endowments	-	-	-	-	17,473	-	17,473
Unrestricted	15,158,557	92	154,346	126,939	76,980	-	15,516,914
Total net assets	17,151,224	92	484,129	148,875	238,812	-	18,023,132
Total liabilities and net assets	$ 36,330,074	$ 92	$ 895,211	$ 256,049	$ 238,812	$ (11,356)	$ 37,708,882

See report of independent auditors on other financial information on page 25.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING 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	$ -	$ 2,234,718	$ 1,209,122	$ -	$ (101,252)	$ 44,565,245
Other operating revenue	752,271	120	1,787	716	144,094	(45,317)	853,671
Total operating revenues	41,974,928	120	2,236,505	1,209,838	144,094	(146,569)	45,418,916
Operating expenses							
Salaries and wages	15,135,575	-	1,766,085	1,141,020	-	-	18,042,680
Employee benefits	5,727,830	-	375,390	214,664	-	-	6,317,884
Supplies	6,503,541	-	121,745	90,940	-	-	6,716,226
Purchased services	3,988,382	-	632,176	848	-	(12,634)	4,608,772
Physician fees	1,835,338	-	91,464	-	-	(91,464)	1,835,338
Depreciation	2,238,232	-	80,267	40,710	-	-	2,359,209
Professional fees	238,692	-	-	-	-	-	238,692
Utilities	954,576	-	80,319	31,023	-	-	1,065,918
Insurance	529,951	-	21,695	19,466	-	-	571,112
Other	526,927	120	399,099	248,660	102,830	(55,289)	1,222,347
Total operating expenses	37,679,044	120	3,568,240	1,787,331	102,830	(159,387)	42,978,178
Income (loss) from operations	4,295,884	-	(1,331,735)	(577,493)	41,264	12,818	2,440,738
Nonoperating gains (losses)							
Investment income	300,396	-	-	-	5,591	-	305,987
Capital grants	53,765	-	-	-	-	-	53,765
Interest on restricted assets	39,734	-	-	-	-	-	39,734
Interest expense	(960,931)	-	(10,904)	-	-	-	(971,835)
Other nonoperating gains	60,276	-	(3,159)	421	-	(12,818)	44,720
Total nonoperating gains (losses)	(506,760)	-	(14,063)	421	5,591	(12,818)	(527,629)
Excess of revenue over (under) 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	-	1,414,4[illegible]
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 25.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	$ 40,228,968	$ -	$ 2,790,073	$ 1,049,866	$ -	$ (91,464)	$ 43,977,443
Other operating revenue	628,900	-	1,672	418	94,502	(24,000)	701,492
Total operating revenue	40,857,868	-	2,791,745	1,050,284	94,502	(115,464)	44,678,935
Operating expenses							
Salaries and wages	15,726,054	-	2,460,139	1,100,062	-	-	19,286,255
Employee benefits	5,762,708	-	498,139	196,278	-	-	6,457,125
Supplies	5,862,213	-	157,800	80,829	-	-	6,100,842
Purchased services	3,899,103	-	347,116	25,878	-	(14,320)	4,257,777
Physician fees	1,764,404	-	91,461	-	-	(91,464)	1,764,401
Depreciation	2,298,833	-	88,732	40,956	-	-	2,428,521
Professional fees	238,848	-	-	-	-	-	238,848
Utilities	776,569	-	83,914	37,195	-	-	897,678
Insurance	539,073	-	43,688	37,214	-	-	619,975
Other	480,263	120	446,326	287,198	86,551	(33,972)	1,266,486
Total operating expenses	37,348,068	120	4,217,315	1,805,610	86,551	(139,756)	43,317,908
Income (loss) from operations	3,509,800	(120)	(1,425,570)	(755,326)	7,951	24,292	1,361,027
Nonoperating gains (losses)							
Investment income	544,847	2	-	-	9,473	-	554,322
Capital grants	13,817	-	-	-	-	-	13,817
Interest on restricted assets	53,208	-	-	-	-	-	53,208
Interest expense	(806,854)	-	(11,529)	-	-	-	(818,383)
Other nonoperating gains	(38,135)	-	27,981	1,788	-	(24,292)	(32,658)
Total nonoperating gains (losses)	(233,117)	2	16,452	1,788	9,473	(24,292)	(229,694)
Excess of revenue over (under) expenses	3,276,683	(118)	(1,409,118)	(753,538)	17,424	-	1,131,333
Change in interest rate swap	(370,761)	-	-	-	-	-	(370,761)
Transfer from (to) affiliates	(1,905,000)	-	1,285,000	620,000	-	-	-
Change in net assets	1,000,922	(118)	(124,118)	(133,538)	17,424	-	760,572
Net assets - beginning of year	16,150,302	210	608,247	282,413	221,388	-	17,262,560
Net assets - end of year	$ 17,151,224	$ 92	$ 484,129	$ 148,875	$ 238,812	$ -	$ 18,023,132

See report of independent auditors on other financial information on page 25.

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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 combined financial statements of the Highland County Joint Township Hospital District as of and for the year ended December 31, 2008, and have issued our report thereon dated April 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland County Joint Township Hospital District's internal control over financial reporting 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 Highland County Joint Township Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Highland County Joint Township Hospital District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (2008-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the combined 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the auditor of the State of Ohio, the Board of Trustees and Board of Governors of Highland County Joint Township Hospital District, 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.

Blue & Co., LLC

April 29, 2009

Highland County Joint Township Hospital District
Schedule of Prior Audit Findings
December 31, 2007

2007-1: Physician Recruitment Asset and Liability

Condition and Recommendation:

In accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business Or Its Owners," the Hospital recorded a liability of $724,387 at December 31, 2007 for the fair value of a new guarantee entered into during 2007 with an offsetting asset recorded in other assets within the balance sheet. We recommend that management analyze new physician agreements with income guarantees for possible accounting of future commitments.

Current Status:

Issue noted in 2008. See 2008 Schedule of Audit Findings and Reponses.

2007-2: Interest Rate Swap

Condition and Recommendation:

The Hospital entered into an interest rate swap in conjunction with the issuance of its 2007 bonds. These arrangements carry a fair value whether an asset or liability, at the end of each accounting period they are in effect. An audit entry was posted at December 31, 2007 to record a liability of $370,761 associated with this swap with the corresponding entry to decrease net assets. We recommend that the Hospital contact the holder of the interest rate swap periodically throughout the year to obtain the fair value of the swap and adjust the value of such within the Hospital's accounts throughout the year.

Current Status:

Corrective action was taken.

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 Hospital 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 Hospital 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.

Management's Response:

As the Hospital enters into these agreements we will evaluate and account for related obligations in accordance with the guidance provided above.

Mary Taylor, CPA
Auditor of State

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 4, 2009

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