

**Deloitte &  
Touche**



***HIGHLAND COUNTY  
JOINT TOWNSHIP  
DISTRICT HOSPITAL***

*Consolidated Financial Statements for the Years  
Ended December 31, 1999 and 1998 and  
Independent Auditors' Report*

# HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998:	
Consolidated Balance Sheets	2
Consolidated Statements of Revenue and Expenses of General Funds	3
<i>Consolidated Statements of Changes in Fund Balances</i>	4
Consolidated Statements of Cash Flows of General Funds	5
Notes to Consolidated Financial Statements	6



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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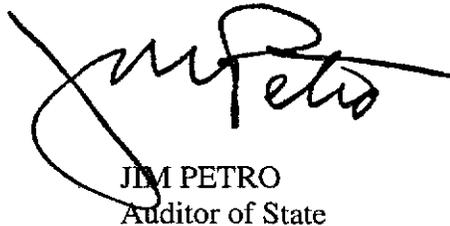
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Highland County Joint District Hospital  
Board of Governors

We have reviewed the Independent Auditor's Report of the Highland County Joint District Hospital, Highland County, prepared by Deloitte & Touche, for the audit period January 1, 1999 to December 31, 1999. 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 District Hospital is responsible for compliance with these laws and regulations.



JIM PETRO  
Auditor of State

July 3, 2000

**INDEPENDENT AUDITORS' REPORT**

Auditor of State of Ohio  
and  
Highland County Joint Township District  
Hospital Board of Governors

We have audited the accompanying consolidated balance sheets of Highland County Joint Township District Hospital (the "Hospital") as of December 31, 1999 and 1998, and the related consolidated statements of revenue and expenses of general funds, changes in fund balances, and of cash flows of *general funds for the years then ended*. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these 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 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as of December 31, 1999 and 1998, and the results of its operations and its cash flows of general funds 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 June 27, 2000 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.

*Deloitte & Touche LLP*

June 27, 2000

# HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 1999 AND 1998

	1999	1998	LIABILITIES AND FUND BALANCES	1999	1998
<b>ASSETS</b>			<b>GENERAL FUNDS</b>		
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents (Note 3)	\$ 554,482	\$ 530,027	Short-term bonds (Note 5)	\$ 251,380	\$ 6,000,000
Assets whose use is limited	642,845	380,711	Current portion of long-term debt (Note 5)		360,595
Receivables:			Accounts payable:		
Patient, net of allowance for doubtful accounts of \$4,457,000 in 1999 and \$3,568,000 in 1998	5,362,020	4,529,969	Trade	1,700,740	660,782
Other	29,817	3,877	Construction	391,465	380,711
Inventories	363,166	282,057	Accrued expenses:		
Prepaid expenses	116,656	78,245	Employee compensation	1,007,260	771,814
Accrued interest receivable	55,784	50,828	Other	232,713	524,720
Total current assets	<u>7,124,770</u>	<u>5,855,714</u>	Estimated amounts due third-party payors (Note 2)	169,160	216,646
			Total current liabilities	<u>3,752,718</u>	<u>8,915,268</u>
<b>ASSETS WHOSE USE IS LIMITED (Note 3):</b>					
Under debt agreement	2,558,353	4,522,088			
By Board for employee benefits	168,945	170,219			
By Board for capital improvements	2,053,024	1,934,879	<b>LONG-TERM DEBT, NET OF CURRENT PORTION (Note 5)</b>	11,375,000	2,056,917
Total	<u>4,780,322</u>	<u>6,627,186</u>			
Less amounts to meet current construction obligations	642,845	380,711	<b>FUND BALANCE, GENERAL FUNDS</b>	11,146,824	10,942,925
Assets whose use is limited, noncurrent portion	<u>4,137,477</u>	<u>6,246,475</u>			
<b>PROPERTY, PLANT AND EQUIPMENT, Net (Notes 2,4,5)</b>	<u>14,677,551</u>	<u>9,752,875</u>			
<b>INTANGIBLE ASSETS (Note 2)</b>	<u>172,083</u>				
<b>UNAMORTIZED FINANCING COSTS, Net (Note 2)</b>	<u>162,661</u>	<u>60,046</u>			
<b>TOTAL</b>	<u>\$26,274,542</u>	<u>\$21,915,110</u>	<b>TOTAL</b>	<u>\$26,274,542</u>	<u>\$21,915,110</u>
			<b>DONOR-RESTRICTED FUNDS</b>		
<b>SPECIFIC-PURPOSE FUNDS (Note 2):</b>					
Cash and cash equivalents (Note 3)	\$ 22,785	\$ 22,785			
Investments (Note 3)	648,838	648,838			
Accrued interest receivable	6,117	6,117			
<b>TOTAL SPECIFIC PURPOSE FUNDS</b>	<u>\$ 740,973</u>	<u>\$ 677,740</u>	<b>SPECIFIC-PURPOSE FUNDS - Fund balance</b>	<u>\$ 740,973</u>	<u>\$ 677,740</u>
<b>ENDOWMENT FUNDS (Note 2):</b>					
Cash equivalents (Note 3)	\$ 15,880	\$ 12,995			
Investments (Note 3)	2,384	2,384			
<b>TOTAL ENDOWMENT FUNDS</b>	<u>\$ 15,880</u>	<u>\$ 15,379</u>	<b>ENDOWMENT FUNDS - Fund balance</b>	<u>\$ 15,880</u>	<u>\$ 15,379</u>

See notes to consolidated financial statements.

# HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

## CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES OF GENERAL FUNDS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
NET PATIENT SERVICE REVENUE (Note 2)	\$24,472,490	\$22,509,214
OTHER OPERATING REVENUE	466,417	277,250
Total revenue	<u>24,938,907</u>	<u>22,786,464</u>
OPERATING EXPENSES:		
Salaries and wages	9,106,393	8,420,550
Employee benefits	2,429,523	2,419,502
Supplies	2,969,412	2,778,434
Purchased services	2,539,798	2,215,315
Physician fees	2,839,069	2,053,369
Bad debt expense	1,959,285	1,467,182
Depreciation	1,169,986	976,965
Professional fees	521,330	562,254
Utilities	569,998	485,895
Interest	286,712	156,111
Insurance	169,748	137,509
Other	340,730	354,071
Total operating expenses	<u>24,901,984</u>	<u>22,027,157</u>
INCOME FROM OPERATIONS	36,923	759,307
NONOPERATING GAINS - Investment income (Notes 2,3)	<u>166,976</u>	<u>185,808</u>
REVENUE AND GAINS IN EXCESS OF EXPENSES	<u>\$ 203,899</u>	<u>\$ 945,115</u>

See notes to consolidated financial statements.

# HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

## CONSOLIDATED STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999			1998		
	General Funds	Donor Restricted		General Funds	Donor Restricted	
		Purpose Funds	Endowment Funds		Specific Purpose Funds	Endowment Funds
BALANCE, BEGINNING OF YEAR	\$ 10,942,925	\$ 677,740	\$ 15,379	\$ 9,997,810	\$ 639,940	\$ 18,320
REVENUE AND GAINS IN EXCESS OF EXPENSES	203,899			945,115		
CONTRIBUTIONS		30,000				
INVESTMENT INCOME - RESTRICTED (Notes 2,3)		33,233	501		37,800	(2,941)
BALANCE, END OF YEAR	<u>\$ 11,146,824</u>	<u>\$ 740,973</u>	<u>\$ 15,880</u>	<u>\$ 10,942,925</u>	<u>\$ 677,740</u>	<u>\$ 15,379</u>

See notes to consolidated financial statements.

**HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS OF GENERAL FUNDS**  
**FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<b>1999</b>	<b>1998</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from operations	\$ 36,923	\$ 759,307
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,169,986	976,965
Interest expense considered capital financing activity	286,712	156,111
Loss on disposal of property and equipment	52,555	18,662
Amortization of deferred financing costs and intangibles	37,781	3,493
Increase in patient receivables	(832,051)	(42,127)
Increase in other receivables	(25,940)	(1,217)
Increase in inventory	(81,109)	(22,676)
Increase in prepaid expenses	(38,411)	(21,296)
Increase (decrease) in accounts payable	1,039,958	(91,115)
Increase (decrease) in accrued expenses	(97,692)	41,862
Increase (decrease) in estimated amounts due to third-party payors	(47,486)	31,421
Net cash provided by operating activities	<u>1,501,226</u>	<u>1,809,390</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Issuance of long-term bonds	11,500,000	
Issuance (repayment) of short-term bonds	(6,000,000)	6,000,000
Repayment of long-term debt	(2,291,132)	(354,614)
Payment of interest on debt	(545,639)	(203,347)
Acquisition of property and equipment	(5,957,484)	(3,165,192)
Increase in bond issue costs	(137,479)	(27,355)
Increase in intangible assets related to physician practice acquisition	(175,000)	
Net cash provided by (used in) capital and related financing activities	<u>(3,606,734)</u>	<u>2,249,492</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease (increase) in assets whose use is limited (excludes change in fair value of investments)	1,811,907	(5,383,445)
Investment income	318,056	158,231
Net cash provided by (used in) investing activities	<u>2,129,963</u>	<u>(5,225,214)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>24,455</b>	<b>(1,166,332)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>530,027</u>	<u>1,696,359</u>
End of year	<u>\$ 554,482</u>	<u>\$ 530,027</u>

See notes to consolidated financial statements.

# HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

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### 1. ORGANIZATION

**Organization** - The Highland County Joint Township District Hospital (the "Hospital"), also referred to as Highland District 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 appoint the Hospital Board of Governors, which is composed of one member from each township and three at-large members, to operate the Hospital. As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code. 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. During 1999, the Hospital also formed the Professional Services Corporation ("PSC"), a for-profit corporation, to further the charitable purposes of the Foundation and the Hospital. The accompanying consolidated financial statements include the Hospital, the Foundation, and PSC. All intercompany transactions and balances have been eliminated in consolidation.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statements** - Governmental accounting standards apply to the Hospital and the Hospital follows Financial Accounting Standards Board pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**Use of Estimates** - The preparation of the 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.

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

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost or appraisal estimates of historical cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets.

**Assets Whose Use is Limited and Investments** - Assets whose use is limited and investments consist of cash, cash equivalents, and debt and equity securities and are carried at fair value. Amounts required to meet current obligations are recognized as current assets.

**Concentration of Credit Risk** - At December 31, 1999 and 1998, respectively, the significant concentrations of accounts receivable for patient services include 30% and 29% from Medicare, 6% and 7% from Medicaid and 64% and 64% from commercial carriers and self-pay.

**Net Patient Service Revenue and Charity Care** - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**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. Inpatient nonacute services, and certain outpatient services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 1996.

**Medicaid** - Inpatient services rendered to Ohio Medicaid program beneficiaries are reimbursed based on a prospective payment system. Outpatient services rendered to Ohio Medicaid program beneficiaries are reimbursed under a fixed fee schedule. Capital-related costs are reimbursed on a cost basis based upon cost reports prepared by the Hospital.

**Other** - The Hospital has also 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 various discounts from established charges.

Net Patient Service Revenue consists of the following for the years ending December 31:

	1999	1998
Gross patient service revenue	\$37,567,055	\$34,822,244
Contractual adjustments	<u>(13,094,565)</u>	<u>(12,313,030)</u>
Net patient service revenue	<u>\$24,472,490</u>	<u>\$22,509,214</u>

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. Hospital services for charity care at its normal established rates totaled approximately \$1,513,000 and \$1,004,000 for the years ended December 31, 1999 and 1998, respectively.

**Unamortized Financing Costs** - Unamortized financing costs (net of accumulated amortization of \$85,574 and \$50,710 at December 31, 1999 and 1998, respectively) represent costs related to issuance of revenue bonds described in Note 5. Such costs are being amortized over the life of the bonds using a method which approximates the interest method.

**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.

**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.

**Statement of Cash Flows** - For purposes of the Statement of Cash Flows, the Hospital considers cash and short-term investments (generally investments with original maturities of less than three months) to be cash equivalents.

### 3. INVESTMENT INCOME, CASH, CASH EQUIVALENTS, ASSETS WHOSE USE IS LIMITED AND INVESTMENTS

Investment income consists of the following:

	General Funds	<u>Donor Restircted Specific Purpose Funds</u>	<u>Endowment Funds</u>
1999:			
Interest and dividend income, less \$121,079 capitalized as an offset to capitalized interest expense (see Note 4)	\$ 201,933	\$ 38,106	\$ 684
Net decrease in the fair value of investments	<u>(34,957)</u>	<u>(4,873)</u>	<u>(183)</u>
Total	<u>\$ 166,976</u>	<u>\$ 33,233</u>	<u>\$ 501</u>
1998:			
Interest and dividend income, less \$68,651 capitalized as an offset to capitalized interest expense (see Note 4)	\$ 139,142	\$ 34,305	
Net increase (decrease) in the fair value of investments	<u>46,666</u>	<u>3,495</u>	<u>\$(2,941)</u>
Total	<u>\$ 185,808</u>	<u>\$ 37,800</u>	<u>\$(2,941)</u>

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

	1999		1998	
	Fair Value	Amortized/ Historical Cost	Fair Value	Amortized/ Historical Cost
Demand deposits and money market accounts	\$ 820,969	\$ 820,969	\$ 577,055	\$ 577,055
Certificates of deposit			108,795	108,795
Common stocks	89,876	13,250	75,435	13,250
U.S. government obligations	<u>5,171,921</u>	<u>5,180,063</u>	<u>7,082,930</u>	<u>7,036,373</u>
Total	<u>\$6,082,766</u>	<u>\$6,014,282</u>	<u>\$7,844,215</u>	<u>\$7,735,473</u>
Amounts summarized by fund type :				
General funds	\$5,334,804	\$5,259,680	\$7,157,213	\$7,046,887
Specific purpose funds	732,082	733,460	671,623	668,128
Endowment funds	<u>15,880</u>	<u>21,142</u>	<u>15,379</u>	<u>20,458</u>
Total	<u>\$6,082,766</u>	<u>\$6,014,282</u>	<u>\$7,844,215</u>	<u>\$7,735,473</u>

At December 31, 1999, the bank balance of the Hospital's demand deposits and money market accounts totaled \$705,687. Of this balance, \$181,601 was covered by federal depository insurance and \$524,086 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.

Various restrictions on deposits and investments, including repurchase agreements, are imposed by State of Ohio statutes. These restrictions are summarized as follows:

**Deposits** - All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. The collateral must be held by a qualified trustee as defined by state law.

**Investments** - The Hospital is authorized to make direct investments in U.S. government, federal agency and instrumentality obligations, repurchase agreements in obligations of the U.S. government and federal agencies, obligations of the State of Ohio and the State Treasurer's investment pool, certificates of deposit, and other demand deposit and money market accounts. The Hospital is also permitted to accept and hold gifts and bequests of stocks or bonds under Section 513.15 of the Ohio Revised Code. All common stocks held by the Hospital are the result of gifts or bequests.

#### 4. PROPERTY, PLANT AND EQUIPMENT

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

	1999	1998
Land	\$ 15,437	\$ 15,437
Land improvements	539,434	239,512
Buildings	8,739,518	4,584,128
Equipment	12,900,601	9,145,158
Construction in progress	637,882	3,208,596
Total	<u>22,832,872</u>	<u>17,192,831</u>
Less accumulated depreciation	<u>(8,155,321)</u>	<u>(7,439,956)</u>
Property, plant and equipment, net	<u>\$ 14,677,551</u>	<u>\$ 9,752,875</u>

Construction in progress is related to remaining costs of a hospital expansion project which was substantially completed in October 1999. The estimated costs to complete the project approximate \$670,000 at December 31, 1999.

During 1999, \$178,979 of net interest was capitalized (\$300,058 expense less \$121,079 of applicable interest income on invested debt proceeds, see Note 3). During 1998, \$1,697 of net interest was capitalized (\$70,348 expense less \$68,651 of applicable interest income on invested debt proceeds).

#### 5. SHORT-TERM BONDS AND LONG-TERM DEBT

The \$6,000,000 amount included in the Hospital's balance sheet at December 31, 1998 as short-term bonds relates to a Hospital Facilities Temporary Revenue Bond, which was short-term construction financing in connection with the expansion project referred to above. The related Bond was a limited revenue obligation of the Hospital, with interest at 3.8%, that matured on June 25, 1999.

Long-term debt consists of the following at December 31:

	1999	1998
1999 revenue bonds, interest rate of 6.75%	\$ 11,500,000	-
Statewide pooled lease program:		
1991 bond issue, interest rates vary with current market rates which ranged from 2.90% to 4.45% in 1998		\$ 1,064,166
1990 bond issue, interest rates vary with current market rates which ranged from 2.90% to 4.45% in 1998		1,076,250
Installment purchase agreements and capital leases	126,380	277,096
Total	<u>11,626,380</u>	<u>2,417,512</u>
Less current portion	<u>(251,380)</u>	<u>(360,595)</u>
Noncurrent portion	<u>\$ 11,375,000</u>	<u>\$ 2,056,917</u>

Effective June 1, 1999, \$11,500,000 of Highland County Joint Township Hospital District Hospital Facilities Revenue Bonds, Series 1999 were issued. The proceeds from the issuance of these bonds were used to repay the remaining obligations related to the Series 1990 and Series 1991 statewide pool lease

program debt (at no gain or loss) 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 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.

Scheduled principal repayments on long-term debt for the five years subsequent to December 31, 1999 and thereafter are as follows:

2000	\$ 251,380
2001	125,000
2002	150,000
2003	150,000
2004	150,000
Thereafter	<u>10,800,000</u>
Total	<u>\$ 11,626,380</u>

## 6. EMPLOYEE BENEFITS

All employees of the Hospital are eligible and must participate in of the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple employer defined benefit plan, administered by the State of Ohio. Information contained herein, other than Hospital contribution information, has been obtained from information published by PERS.

PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio State Statute per Chapter 145 of the Ohio Revised Code. PERS also provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants.

The Ohio Revised Code provides statutory authority for employee and employer contributions under PERS and requires public employers to fund postretirement health care through their contributions to PERS. Contribution rates for 1999, 1998 and 1997 were 8.5% of covered payroll for employees and 13.55% for employers (including 4.2% in 1999 and 1998, and 5.11% in 1997 to fund postretirement health care coverage). The Hospital's contributions required and made for 1999, 1998, and 1997, were \$1,234,260, \$1,140,985 and \$1,002,323, respectively.

PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Other Post Employment Benefits ("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. Expenditures for OPEB during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

**7. PROFESSIONAL LIABILITY**

The Hospital maintains medical professional liability insurance under a claims-made insurance policy. Insurance limits are \$1,000,000 per occurrence \$3,000,000 in the annual aggregate in both 1999 and 1998. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

The Hospital is subject to claims and suits for alleged malpractice in the normal course of operating the Hospital facilities. The ultimate outcome of these actions cannot be determined at this time and no estimated liability has been recorded. However, in management's opinion the liability, if any, resulting from such claims will be covered by the professional liability insurance and will not have a material adverse effect on the accompanying financial statements of the Hospital.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Auditor of State of Ohio  
and  
Highland County Joint Township District Hospital  
Board of Governors:

We have audited the financial statements of Highland County Joint Township District Hospital (the "Hospital") as of and for the year ended December 31, 1999, and have issued our report thereon dated June 27, 2000. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**COMPLIANCE**

As part of obtaining reasonable assurance about whether the Hospital's 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 an instance of noncompliance (described in the following sentences) that is required to be reported under *Government Auditing Standards*. Certain monthly deposits to trust accounts required by an indenture agreement related to the Hospital's 1999 Revenue Bonds were not made. Such deposits were made on June 27, 2000 on a cumulative basis in accordance with instructions and a waiver received from the Bond Trustee.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the 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.

\* \* \* \* \*

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

Deloitte & Touche LLP

June 27, 2000



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OFFICE OF THE AUDITOR**

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**HIGHLAND COUNTY JOINT 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.**

By: *Susan Babbitt*

Date: JULY 25, 2000