HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

Mary Taylor, CPA
Auditor of State

Board of Trustees
Highland County Joint Township Hospital District
1275 North High Street
Hillsboro, Ohio 45133

We have reviewed the *Report of Independent Auditors* of the Highland County Joint Township Hospital District, prepared by Blue & Co., LLC, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Highland County Joint Township Hospital District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 2, 2007

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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, 2006 and 2005, 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 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, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2006 and 2005, 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 May 11, 2007 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 considering the results of our audit.

Management's discussion and analysis on pages i through viii is not a required part of the basic 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

May 17, 2007

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, 2006 and 2005. The financial statements reflect combined information for Highland District Hospital (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.

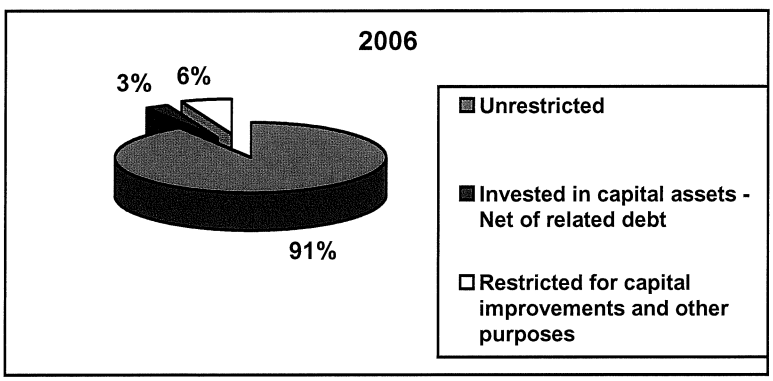
Using This Annual Report

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 financial position improved during the year ended December 31, 2006. While cash and cash equivalents decreased by $1,245,870 in 2006, the ratio of current assets to current liabilities improved to 4.8 times at December 31, 2006 compared to 3.6 times at December 31, 2005. In total, liabilities decreased from $20,077,348 to $19,206,453 at December 31, 2006. Net assets increased $592,215, or 3.6%, in 2006. 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, 2006.



In the year ended December 31, 2006, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of $592,215 compared to a $2,852,450 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, 2006:

	Year Ended December 31		Change	
	2006	2005	Amount	Percent
Assets:				
Current assets	$ 16,369,277	$ 17,360,299	$ (991,022)	-5.7%
Noncurrent assets	4,067,993	4,173,082	(105,089)	-2.5%
Capital assets	16,031,743	15,214,312	817,431	5.4%
Total assets	36,469,013	36,747,693	(278,680)	-0.8%
Liabilities:				
Current liabilities	3,394,701	4,777,790	(1,383,089)	-28.9%
Long-term liabilities	15,811,752	15,299,558	512,194	3.3%
Total liabilities	19,206,453	20,077,348	(870,895)	-4.3%
Net assets:				
Invested in capital assets - Net of debt	576,652	2,471,815	(1,895,163)	-76.7%
Restricted assets	1,034,912	971,099	63,813	6.6%
Unrestricted	15,650,996	13,227,431	2,423,565	18.3%
Total net assets	$ 17,262,560	$ 16,670,345	$ 592,215	3.6%

The increase in net assets of $592,215, or 3.6%, is primarily in the unrestricted category.

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	Year Ended December 31		Change	
	2006	**2005**	**Amount**	**Percent**
Operating revenues				
Net patient service revenue	$43,191,445	$ 43,132,169	$ 59,276	0.1%
Other operating revenue	725,122	395,682	329,440	83.3%
Total operating revenues	43,916,567	43,527,851	388,716	0.9%
Operating expenses				
Salaries and wages	19,079,935	17,850,153	1,229,782	6.9%
Employee benefits	6,212,468	5,702,385	510,083	8.9%
Supplies	5,952,625	5,748,767	203,858	3.5%
Purchased services	4,997,029	5,555,630	(558,601)	-10.1%
Physician fees	1,291,196	1,037,541	253,655	24.4%
Depreciation	2,384,809	1,862,431	522,378	28.0%
Professional fees	148,216	137,861	10,355	7.5%
Utilities	917,653	947,752	(30,099)	-3.2%
Insurance	737,007	458,576	278,431	60.7%
Other	1,280,730	1,088,421	192,309	17.7%
Total operating expenses	43,001,668	40,389,517	2,612,151	6.5%
Income from operations	914,899	3,138,334	(2,223,435)	-70.8%
Nonoperating gains (losses)				
Investment income	559,622	337,940	221,682	65.6%
Capital grants	60,154	-	60,154	100.0%
Interest earned on restricted assets	35,181	22,299	12,882	57.8%
Interest expense	(979,198)	(878,660)	(100,538)	11.4%
Loss on disposal of assets	(718)	(1,675)	957	-57.1%
Other nonoperating gains	2,275	234,212	(231,937)	-99.0%
Total nonoperating gains (losses)	(322,684)	(285,884)	(36,800)	12.9%
Excess of revenue over (under) expenses	$ 592,215	$ 2,852,450	$ (2,260,235)	-79.2%

Operating Revenues

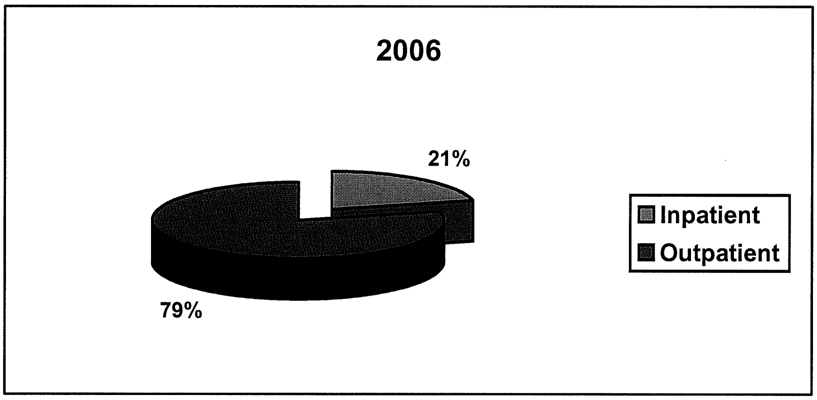
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 0.1%. 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 42.2 % to 42.9 % of gross revenue.

- Other operating revenue increased $329,440 due primarily due to increases in contributions, grant income and outside laboratory sales.

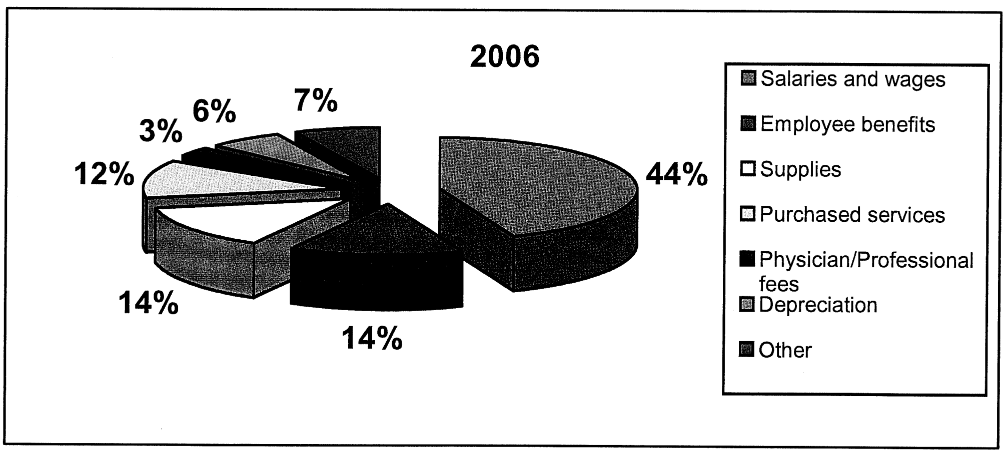
- The following is a graphic illustration of patient revenues by source:



Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 6.9% due primarily to regular increases in pay rates and increases in employees in the affiliated organizations.
- Benefits costs increased 8.9% due to continued increases in group health insurance premiums and increases in the number of full time equivalents.
- Supplies increased 3.5%, due primarily to inflationary increases in supplies purchased.
- Purchased service cost decreased 10.5%, due primarily to the hospital moving certain imaging services in-house.
- Physician fees increased 24.4%, due to the reduced use of on-call physicians and more full time coverage in-house.
- Depreciation and amortization increased 28.0% due to recent additions to building improvements and equipment.
- 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 2005 to 2006 primarily due to an increase in interest expense in 2006.

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		Increase
	2006	2005	(Decrease)
Cash provided by (used in):			
Operating and nonoperating activities	$ 1,325,412	$ 4,857,692	$ (3,532,280)
Capital and related financing activities	(3,601,793)	(4,349,395)	747,602
Investing activities	640,304	916,303	(275,999)
Total	(1,636,077)	1,424,600	(3,060,677)
Cash - beginning of year	12,664,762	11,240,162	1,424,600
Cash - end of year	$ 11,028,685	$ 12,664,762	(1,636,077)

The Hospital's cash position decreased during 2006 as cash and cash equivalents totaled $11,418,892 in 2006 compared to $12,664,762 in 2005. The following discussion highlights some of the significant components of cash flow presented above:

- Cash provided by operating and non-operating activities totaled $1,325,412, which was $3,532,280 less than in 2005. This is primarily a result of decreased cash received from patients and third-party payors of $3,013,053 in 2006 and increased payments to employees of $1,108,692 in 2006, offset by changes in other operating revenue and cash payments to suppliers for services and goods.

- Net cash used in capital and related financing activities was $3,601,793 in 2006 as compared to net cash used of $4,349,395 in 2005.

- Net cash from investing activities was $640,304 in 2006 compared to $916,303 in 2005.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2006, the Hospital had $16,031,743 invested in capital assets, net of accumulated depreciation of $18,795,033. Depreciation and amortization totaled $2,384,809 for the current year compared to $1,862,431 last year. Details of the historical cost of these assets for the past two years are shown below.

	Year Ended December 31		Increase
	2006	2005	(Decrease)
Land	$ 15,437	$ 15,437	$ -
Land improvements	683,709	1,062,049	(378,340)
Buildings and improvements	14,977,728	10,547,655	4,430,073
Equipment	19,062,915	16,637,975	2,424,940
Construction in progress	-	4,302,281	(4,302,281)
Total	$ 34,739,789	$ 32,565,397	$ 2,174,392

The change in construction in progress reflects the completion of the building project. The increase in equipment is primarily a result of the addition of certain imaging equipment.

Debt

At year end, the Hospital had $15,455,091 in long-term debt outstanding as compared to $14,986,587 the previous year. The table below summarizes these amounts by type of debt instrument:

	Year Ended December 31		Increase
	2006	2005	(Decrease)
	(in thousands)		
Lease obligations	$ 1,488,830	$ 316,612	$ 1,172,218
Bonds and loans payable	13,966,261	14,669,975	(703,714)
Total long-term debt	$ 15,455,091	$ 14,986,587	$ 468,504

The Hospital entered into a capital lease obligation for certain imaging equipment in 2006. 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, 2006 AND 2005

ASSETS

	2006	2005
Current assets		
Cash and cash equivalents	$ 9,035,156	$ 10,442,439
Assets limited as to use - current portion	655,598	803,905
Patient accounts receivable, net	5,283,064	4,534,626
Inventories	411,905	447,389
Prepaid expenses and other current assets	901,491	1,012,765
Accrued interest receivable	14,413	9,139
Notes and grants receivable - current portion	39,707	110,036
Estimated amounts due from third party payors	27,943	-
Total current assets	16,369,277	17,360,299
Asset whose use is limited		
Restricted by contributors for capital improvements and other purposes	1,017,439	959,888
Principal of permanent endowments	17,473	11,210
Designated by Board for capital improvements and employee benefits	1,489,190	1,426,188
Held by trustee under bond indenture agreements	1,861,873	2,154,181
Total assets limited as to use	4,385,975	4,551,467
Less amounts to meet current obligations	(655,598)	(803,905)
Total assets limited as to use - noncurrent portion	3,730,377	3,747,562
Capital assets	16,031,743	15,214,312
Other assets		
Notes and grants receivable - net of current portion	-	36,917
Intangible assets	165,000	201,000
Unamortized financing cost - net	172,616	187,603
Total other assets	337,616	425,520
Total assets	$ 36,469,013	$ 36,747,693

See accompanying notes to financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

LIABILITIES AND NET ASSETS

	2006	2005
Current liabilities		
Current portion of long-term debt	$ 663,122	$ 703,635
Accounts payable	1,033,430	1,322,107
Accrued liabilities	1,698,149	1,459,615
Estimated amounts due third-party payors	-	1,292,433
Total current liabilities	3,394,701	4,777,790
Compensated absences	1,019,783	1,016,606
Long-term debt, net of current portion	14,791,969	14,282,952
Total liabilities	19,206,453	20,077,348
Net assets		
Invested in capital assets - net of related debt	576,652	2,471,815
Restricted:		
Expendable for capital improvements and other purposes	1,017,439	959,889
Nonexpendable permanent endowments	17,473	11,210
Unrestricted	15,650,996	13,227,431
Total net assets	17,262,560	16,670,345
Total liabilities and net assets	$ 36,469,013	$ 36,747,693

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating revenues		
Net patient service revenue	$ 43,191,445	$ 43,132,169
Other operating revenue	725,122	395,682
Total operating revenues	43,916,567	43,527,851
Operating expenses		
Salaries and wages	19,079,935	17,850,153
Employee benefits	6,212,468	5,702,385
Supplies	5,952,625	5,748,767
Purchased services	4,997,029	5,555,630
Physician fees	1,291,196	1,037,541
Depreciation and amortization	2,384,809	1,862,431
Professional fees	148,216	137,861
Utilities	917,653	947,752
Insurance	737,007	458,576
Other	1,280,730	1,088,421
Total operating expenses	43,001,668	40,389,517
Income from operations	914,899	3,138,334
Nonoperating gains (losses)		
Investment income	559,622	337,940
Capital grants	60,154	-
Interest earnings on restricted assets	35,181	22,299
Interest expense	(979,198)	(878,660)
Gain on disposal of assets	(718)	(1,675)
Other nonoperating gains	2,275	234,212
Total nonoperating gains (losses)	(322,684)	(285,884)
Excess of revenue over expenses	592,215	2,852,450
Net assets - beginning of year	16,670,345	13,817,895
Net assets - end of year	$ 17,262,560	$ 16,670,345

See accompanying notes to financial statements.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 41,122,631	$ 44,135,684
Cash payments to suppliers for services and goods	(15,471,649)	(15,715,512)
Cash payments to employees for services	(25,050,692)	(23,942,000)
Other operating revenue	725,122	379,520
Net cash from operating activities	1,325,412	4,857,692
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,771,065)	(2,744,900)
Principal payments on bonds	(412,068)	(315,000)
Interest paid on long-term debt - net of capitalized interest	(979,198)	(878,660)
Principal payments on capital leases	(499,616)	(410,835)
Capital grants received	60,154	-
Net cash from capital and related financing activities	(3,601,793)	(4,349,395)
Cash flow from investing activities		
Advances to physicians - net of forgiveness	107,246	230,759
Income received on investments	594,803	360,239
Income from other nonoperating gains	1,557	251,381
Purchases of investments	(4,190,655)	(4,471,242)
Proceeds from sale of investments	4,127,353	4,545,166
Net cash from investing activities	640,304	916,303
Change in cash and cash equivalents	(1,636,077)	1,424,600
Cash and cash equivalents - beginning of year	12,664,762	11,240,162
Cash and cash equivalents- end of year	$ 11,028,685	$ 12,664,762
Balance sheet classification of cash and cash equivalents		
Current assets - cash	$ 9,035,156	$ 10,442,439
Assets limited as to use	1,993,529	2,222,323
Total	$ 11,028,685	$ 12,664,762
Supplemental disclosure of non cash activities		
Equipment acquired under capital lease obligation	$ 1,380,188	$ -
Amortization of bond financing costs	$ 14,987	$ 15,070

See accompanying notes to financial statements.

COMBINED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006	2005
Cash flows from operating activities		
Income from operations	$ 914,899	$ 3,138,334
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation and amortization	2,384,809	1,862,431
Provision for bad debt	3,175,963	3,143,562
Change in operating assets and liabilities		
Patient receivables	(3,924,401)	(3,196,298)
Other receivables	-	180,607
Inventories	35,484	(92,444)
Prepaid expenses and other	106,000	18,702
Accounts payable	(288,677)	(468,956)
Accrued expenses and compensated absenses	241,711	(166,746)
Estimated amounts due third-party payors	(1,320,376)	438,500
Net cash from operating activities	$ 1,325,412	$ 4,857,692

See accompanying notes to financial statements.

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.

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 $14,987 and $15,070 in 2006 and 2005, respectively. In 2001, PFW incurred costs in obtaining a commercial loan to finance the purchase of a physician practice. These costs are being amortized over the period the obligations are outstanding using the straight-line method.

Intangible Assets

Intangible assets are related to the acquisitions of PSC in 1999 and PFW in 2001. These assets are being amortized on a straight-line basis. Amortization expense related to the acquisition of PFW totaled $36,000 in 2006 and 2005.

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.

Reclassifications

Certain amounts have been reclassified in 2005 to conform to the current year presentation.

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 $1,472,932 and $996,812 for 2006 and 2005, 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.

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. CHANGE IN PRESENTATION

The Organization changed the method by which it is presenting its component units during 2006 from a "discrete" presentation to a "blended" presentation and for all disclosures within the 2006 financial statements. The change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity,* and No. 39, *Determining Whether Certain Organizations Are Component Units,* Issued by the Governmental Accounting Standards Board.

3. DEPOSITS AND INVESTMENTS

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

	2006		2005	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	$ 11,028,685	$ 11,028,685	$ 12,664,762	$ 12,664,762
Stocks	102,832	5,787	92,608	13,250
U. S. government obligations	2,289,614	2,280,219	2,236,536	2,235,245
Total	$ 13,421,131	$ 13,314,691	$ 14,993,906	$ 14,913,257

	2006		2005	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 9,035,156	$ 9,035,156	$ 10,442,439	$ 10,442,439
Assets limited as to use	4,385,975	4,279,535	4,551,467	4,470,818
Total	$ 13,421,131	$ 13,314,691	$ 14,993,906	$ 14,913,257

At December 31, 2006, the bank balance of the Organization's demand deposits and money market accounts totaled $11,257,916. Of this balance, $421,737 was covered by federal depository insurance and $10,836,179 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, 2006:			
U.S. Government obligations	$ 2,289,614	$ 1,819,916	$ 469,698

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 places no limit on the amount it may invest in any one issuer. 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.

Assets Limited as to Use

The Composition of assets whose use is limited is set forth below:

	2006	2005
Restricted by contributors for capital improvements and other purposes	$ 1,017,439	$ 959,888
Principal of permanent endowments	17,473	11,210
Designated by board for capital improvements and employee benefits	1,489,190	1,426,188
Held by trustee, under Bond Indenture agreements	1,861,873	- 2,154,181
Total	$ 4,385,975	$ 4,551,467

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2006	2005
Total patient accounts receivable	$ 10,347,436	$ 9,012,897
Less allowance for:		
Uncollectible accounts	(1,504,872)	(1,199,286)
Contractual adjustments	(3,559,500)	(3,278,985)
Net patient accounts receivable	$ 5,283,064	$ 4,534,626

4. NOTES AND GRANTS RECEIVABLE

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

	2006	2005
Notes and grants receivable	$ 39,707	$ 146,953
Less current portion	(39,707)	(110,036)
Long-term portion	$ -	$ 36,917

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	2005	Additions	Retirements / Transfers	2006
Land	$ 15,437	$ -	$ -	15,437
Land improvements	1,062,049	30,438	(408,778)	683,709
Buildings and improvements	10,547,655	511,958	3,918,115	14,977,728
Equipment	15,123,727	681,522	1,019,387	16,824,636
Equipment - capital leases	1,514,248	1,380,188	(656,157)	2,238,279
Construction in progress	4,302,281	547,147	(4,849,428)	-
Total capital assets	32,565,397	3,151,253	(976,861)	34,739,789
Less accumulated depreciation				
Land improvements	753,522	57,748	(258,276)	552,994
Buildings and improvements	5,284,424	746,513	223,613	6,254,550
Equipment	9,956,341	1,472,033	(653,195)	10,775,179
Equipment - capital leases	1,356,798	57,528	(289,003)	1,125,323
Total accumulated depreciation	17,351,085	2,333,822	(976,861)	18,708,046
Capital assets, net	$ 15,214,312	$ 817,431	$ -	$ 16,031,743

Capital asset activity for the year ended December 31, 2005 was as follows:

	2004	Additions	Retirements	2005
Land	15,437	$ -	$ -	15,437
Land improvements	1,043,307	18,742	-	1,062,049
Buildings and improvements	10,493,789	53,866	-	10,547,655
Equipment	14,615,952	582,345	(74,570)	15,123,727
Equipment - capital leases	1,514,248	-	-	1,514,248
Construction in progress	2,212,334	2,089,947		4,302,281
Total capital assets	28,937,652	2,744,900	(74,570)	32,565,397
Less accumulated depreciation				
Land improvements	656,004	97,518	-	753,522
Buildings and improvements	4,779,005	505,419	-	5,284,424
Equipment	9,154,110	913,362	(111,131)	9,956,341
Equipment - capital leases	1,010,666	346,132	-	1,356,798
Total accumulated depreciation	$ 15,182,459	$ 1,862,431	$ (111,131)	$ 17,351,085
Capital assets, net	$ 13,755,193	$ 882,469	$ 36,561	$ 15,214,312

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 59% 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

Prior to December, 2005, inpatient, acute-care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. Reimbursements for all outpatient services were based on the prospectively determined ambulatory payment classification system. Effective December, 2005 the Hospital was 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 2004.

Medicaid

The Medicaid payment system in Ohio is transitioning to a managed care program. Covered Families and Children (CFC) beneficiaries became covered under Medicaid managed care effective August 1, 2006. Aged, Blind and/or Disabled (ABD) beneficiaries are covered effective January 1, 2007. The Medicaid managed care program established preauthorization and precertification guidelines for certain procedures. Payment for these services is at risk in the event that these guidelines are not followed.

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.

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. Such bonds bear interest at 6.75%, with annual principal payments due through December 1, 2029, and are collateralized by all 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.

On January 26, 2001, the Hospital obtained $700,000 of Hospital Facilities Revenue Bonds, Series 2001, to finance the construction of the Edith Brown Pavilion. The bonds are payable in monthly installments of $13,559, which includes interest at 6.08%, beginning February 26, 2001. The bonds were paid off with proceeds from the 2004 bonds.

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 13, 2001, PFW obtained a $560,000 commercial loan to finance the purchase of a physician practice. The loan is payable in monthly installments of $11,355, which includes interest at 8.0%, beginning September 13, 2001, and matured in August 2006.

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 3.99% at December 31, 2006. The debt is collateralized by a letter of credit at Fifth Third Bank with a maximum credit amount of $3,953,144 at December 31, 2006.

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 August 15, 2007.

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 deprecation expense for 2006 and 2005.

In 2006, the Organization paid interest of approximately $978,256. The Organization paid interest of approximately $865,917 in 2005, of which $54,005 was capitalized.

Long-term debt activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 316,612	$ 1,380,188	$ (499,616)	$ 1,197,184	$ 285,501
Bonds and loans payable	14,669,975	-	(412,068)	14,257,907	377,621
Total leases, bonds, and loans payable	$ 14,986,587	$ 1,380,188	$ (911,684)	$ 15,455,091	$ 663,122

Long-term debt activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 597,212	$ -	$ (280,600)	$ 316,612	$ 291,646
Bonds and loans payable	15,115,210	-	(445,235)	14,669,975	411,989
Total leases, bonds, and loans payable	$ 15,712,422	$ -	$ (725,835)	$ 14,986,587	$ 703,635

The following is a schedule of bond and loan principal and interest and future minimum lease payments as of December 31, 2006:

	Bonds and Loans Payable	Bonds and Loans Interest	Lease Payable
2007	377,621	802,929	335,651
2008	383,086	783,529	310,581
2009	388,646	763,936	310,581
2010	419,210	744,504	310,581
2011	429,811	722,555	51,764
2012-2016	2,624,483	3,247,782	-
2017-2021	3,405,050	2,471,965	-
2022-2026	3,830,000	1,465,662	-
Thereafter	2,400,000	317,250	
Total payments	$ 14,257,907	$ 11,320,112	1,319,158
Less amount representing interest			(121,974)
Total			$ 1,197,184

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

	2006	2005
Cost of equipment under capital lease	$ 2,238,279	$ 1,514,248
Lease accumulated amoritization	1,161,323	1,356,797
Net carrying amount	$ 1,076,956	$ 157,451

8. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2006 and 2005 are as follows:

	2006	2005
Payroll and related amounts	$ 916,285	$ 741,901
Workers' compensation premiums	290,839	303,651
Pension	410,156	334,136
Interest	80,869	79,927
Total accrued liabilities	$ 1,698,149	$ 1,459,615

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	2006	2005
Revenue:		
Inpatient services:		
Routine services	$ 6,166,726	$ 6,201,308
Ancillary services	9,885,340	15,495,978
Outpatient services	59,606,036	52,894,619
Total patient revenue	75,658,102	74,591,905
Revenue deductions:		
Provision for contractual allowances	27,817,762	27,319,362
Provision for bad debt allowances	3,175,963	3,143,562
Provision for charity care	1,472,932	996,812
Total revenue deductions	32,466,657	31,459,736
Total net patient service revenue	$ 43,191,445	$ 43,132,169

10. DEFINED BENEFIT PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. OPERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employees are 13.7% and 9.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2006	$ 2,155,163
2005	$ 2,014,180
2004	$ 1,936,226

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2006 and 2005 employer contribution rates of 13.7% used to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2005 was 6.5%. An annual increase of 4% 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% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804.

Hospital contributions made to fund post-employment benefits approximated $707,900, $579,000 and $572,000 for 2006, 2005 and 2004, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2005 was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was $31.3 billion and $20.2 billion, respectively.

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care 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 $5,000,000 of coverage.

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

The 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 financial statements of Highland County Joint Township Hospital District as of December 31, 2006. Our audit was made for the purpose of forming an opinion on the basic 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 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 financial statements. The information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blue & Co., LLC

May 17, 2007

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2006

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 8,801,037	$ 210	$ 103,400	$ 38,907	$ 91,602	$ -	$ 9,035,156
Assets limited as to use - current portion	655,598	-	-	-	-	-	655,598
Patient accounts receivable - net	4,916,664	-	273,026	93,374	-	-	5,283,064
Inventories	411,905	-	-	-	-	-	411,905
Prepaid expenses and other current assets	697,363	-	148,782	55,346	-	-	901,491
Accrued interest receivable	14,413	-	-	-	-	-	14,413
Notes and grants receivable - current portion	56,200	-	-	-	-	(16,493)	39,707
Estimated amounts due from third-party payors	27,943	-	-	-	-	-	27,943
Total current assets	15,581,123	210	525,208	187,627	91,602	(16,493)	16,369,277
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	905,127	-	-	-	112,313	-	1,017,440
Principal of permanent endowments	-	-	-	-	17,473	-	17,473
Designated by Board for capital improvements and employee benefits	1,489,190	-	-	-	-	-	1,489,190
Held by trustee under bond indenture agreements	1,861,872	-	-	-	-	-	1,861,872
Total assets limited as to use	4,256,189	-	-	-	129,786	-	4,385,975
Less amounts to meet current obligations	(655,598)	-	-	-	-	-	(655,598)
Total assets limited as to use - noncurrent portion	3,600,591	-	-	-	129,786	-	3,730,377
Capital assets - net	15,454,492	-	550,496	26,755	-	-	16,031,743
Other assets							
Notes and grants receivable - net of current portion	-	-	-	-	-	-	-
Intangible assets	-	-	-	165,000	-	-	165,000
Unamortized financing costs - net	172,616	-	-	-	-	-	172,616
Total other assets	172,616	-	-	165,000	-	-	337,616
Total assets	$ 34,808,822	$ 210	$ 1,075,704	$ 379,382	$ 221,388	$ (16,493)	$ 36,469,013

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2006

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	$ 655,598	$ -	$ 7,524	$ -	$ -	$ -	$ 663,122
Accounts payable	863,390	-	137,635	32,405	-	-	1,033,430
Accrued liabilities	1,517,571	-	134,702	62,369	-	(16,493)	1,698,149
Estimated amounts due to third-party payors	-	-	-	-	-	-	-
Total current liabilities	3,036,559	-	279,861	94,774	-	(16,493)	3,394,701
Compensated absences	1,005,375		12,213	2,195	-	-	1,019,783
Long-term debt - net of current portion	14,616,586	-	175,383	-	-		14,791,969
Total liabilities	18,658,520	-	467,457	96,969	-	(16,493)	19,206,453
Net assets							
Invested in capital assets - net of related debt	182,308	-	367,589	26,755	-	-	576,652
Restricted:							
Expendable for capital improvements and other purposes	905,127	-	-	-	112,312	-	1,017,439
Nonexpendable permanent endowments	-	-	-	-	17,473	-	17,473
Unrestricted	15,062,867	210	240,658	255,658	91,603	-	15,650,996
Total net assets	16,150,302	210	608,247	282,413	221,388	-	17,262,560
Total liabilities and net assets	$ 34,808,822	$ 210	$ 1,075,704	$ 379,382	$ 221,388	$ (16,493)	$ 36,469,013

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2005

ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current assets							
Cash and cash equivalents	$ 10,248,756	$ 439	$ 58,196	$ 33,908	$ 101,140	$ -	$ 10,442,439
Assets limited as to use - current portion	803,905	-	-	-	-	-	803,905
Patient accounts receivable - Net	4,264,308	-	168,613	101,705	-	-	4,534,626
Inventories	447,389	-	-	-	-	-	447,389
Prepaid expenses and other current assets	852,732	-	115,241	78,858	-	(34,066)	1,012,765
Accrued interest receivable	9,139	-	-	-	-	-	9,139
Notes and grants receivable - current portion	110,036	-	-	-	-	-	110,036
Total current assets	16,736,265	439	342,050	214,471	101,140	(34,066)	17,360,299
Assets limited as to use							
Restricted by contributors for capital improvements and other purposes	869,946	-	-	-	89,942	-	959,888
Principal of permanent endowments	-	-	-	-	11,210	-	11,210
Designated by Board for capital improvements and employee benefits	1,426,188	-	-	-	-	-	1,426,188
Held by trustee under bond indenture agreements	2,154,181	-	-	-	-	-	2,154,181
Total assets limited as to use	4,450,315	-	-	-	101,152	-	4,551,467
Less amounts to meet current obligations	(803,905)	-	-	-	-	-	(803,905)
Total assets limited as to use - noncurrent portion	3,646,410	-	-	-	101,152	-	3,747,562
Capital assets - net	14,738,989	-	455,423	19,900	-	-	15,214,312
Other assets							
Notes and grants receivable - net of current portion	36,917	-	-	-	-	-	36,917
Intangible assets	-	-	-	201,000	-	-	201,000
Unamortized financing costs - net	187,276	-	-	327	-	-	187,603
Total other assets	224,193	-	-	201,327	-	-	425,520
Total assets	$ 35,345,857	$ 439	$ 797,473	$ 435,698	$ 202,292	$ (34,066)	$ 36,747,693

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET
DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminations	Total
Current liabilities							
Current portion of long-term debt	$ 606,646	$ -	$ 7,080	$ 89,909	$ -	$ -	$ 703,635
Accounts payable	1,173,490	-	152,726	29,957	-	(34,066)	1,322,107
Accrued liabilities	1,321,296	-	61,136	77,183	-	-	1,459,615
Estimated amounts due to third-party payors	1,292,433	-	-	-	-	-	1,292,433
Total current liabilities	4,393,865	-	220,942	197,049	-	(34,066)	4,777,790
Compensated absences	1,005,364	-	7,700	3,542	-	-	1,016,606
Long-term debt - net of current portion	14,099,966	-	182,986	-	-	-	14,282,952
Total liabilities	19,499,195	-	411,628	200,591	-	(34,066)	20,077,348
Net assets							
Invested in capital assets - net of related debt	2,186,558	-	265,357	19,900	-	-	2,471,815
Restricted:							
Expendable for capital and other purposes	869,947	-	-	-	89,942	-	959,889
Nonexpendable permanent endowments	-	-	-	-	11,210	-	11,210
Unrestricted	12,790,157	439	120,488	215,207	101,140	-	13,227,431
Total net assets	15,846,662	439	385,845	235,107	202,292	-	16,670,345
Total liabilities and net assets	$ 35,345,857	$ 439	$ 797,473	$ 435,698	$ 202,292	$ (34,066)	$ 36,747,693

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	$ 39,963,266	$ -	$ 2,545,689	$ 1,215,488	$ -	$ (532,998)	$ 43,191,445
Other operating revenue	640,923	-	1,824	471	118,887	(36,983)	725,122
Total operating revenues	40,604,189	-	2,547,513	1,215,959	118,887	(569,981)	43,916,567
Operating expenses							
Salaries and wages	15,561,633	-	2,204,002	1,314,300	-	-	19,079,935
Employee benefits	5,544,000	-	437,982	230,486	-	-	6,212,468
Supplies	5,706,023	-	168,355	78,247	-	-	5,952,625
Purchased services	4,450,828	-	528,000	33,721	-	(15,520)	4,997,029
Physician fees	1,622,691	-	201,503	-	-	(532,998)	1,291,196
Depreciation	2,258,778	-	85,020	41,011	-	-	2,384,809
Professional fees	148,216	-	-	-	-	-	148,216
Utilities	826,745	-	90,908	-	-	-	917,653
Insurance	525,172	-	173,518	38,317	-	-	737,007
Other	371,487	258	383,873	468,261	103,803	(46,952)	1,280,730
Total operating expenses	37,015,573	258	4,273,161	2,204,343	103,803	(595,470)	43,001,668
Income (loss) from operations	3,588,616	(258)	(1,725,648)	(988,384)	15,084	25,489	914,899
Nonoperating gains (losses)							
Investment income	555,610	-	-	-	4,012	-	559,622
Capital grants	60,154	-	-	-	-	-	60,154
Interest earnings on restricted assets	35,181	-	-	-	-	-	35,181
Interest expense	(965,203)	-	(11,833)	(2,162)	-	-	(979,198)
Loss on disposal of assets	(718)	-	-	-	-	-	(718)
Other nonoperating gains	-	29	24,883	2,852	-	(25,489)	2,275
Total nonoperating gains (losses)	(314,976)	29	13,050	690	4,012	(25,489)	(322,684)
Excess of revenue over (under) expenses	3,273,640	(229)	(1,712,598)	(987,694)	19,096	-	592,215
Transfer from (to) affiliates	(2,970,000)	-	1,935,000	1,035,000	-	-	-
Change in net assets	303,640	(229)	222,402	47,306	19,096	-	592,215
Net assets - beginning of year	15,846,662	439	385,845	235,107	202,292	-	16,670,345
Net assets - end of year	$ 16,150,302	$ 210	$ 608,247	$ 282,413	$ 221,388	$ -	$ 17,262,560

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2005

	Hospital	HDH Foundation	PSC	PFW	HJTDH Foundation	Eliminating	Total
Operating revenues							
Net patient service revenue	$ 40,309,769	$ -	$ 2,074,548	$ 1,365,603	$ -	$ (617,751)	$ 43,132,169
Other operating revenue	318,090	-	998	96	83,094	(6,596)	395,682
Total operating revenue	40,627,859	-	2,075,546	1,365,699	83,094	(624,347)	43,527,851
Operating expenses							
Salaries and wages	15,105,318	-	1,557,168	1,187,667	-	-	17,850,153
Employee benefits	5,227,635	-	280,555	194,195	-	-	5,702,385
Supplies	5,631,900	-	63,884	52,983	-	-	5,748,767
Purchased services	4,957,507	-	587,909	23,145	-	(12,931)	5,555,630
Physician fees	1,369,292	-	286,000	-	-	(617,751)	1,037,541
Depreciation	1,741,526	-	79,758	41,147	-	-	1,862,431
Professional fees	137,861	-	-	-	-	-	137,861
Utilities	835,806	-	75,959	35,987	-	-	947,752
Insurance	417,524	-	13,194	27,858	-	-	458,576
Other	342,000	122	380,043	350,655	32,168	(16,567)	1,088,421
Total operating expenses	35,766,369	122	3,324,470	1,913,637	32,168	(647,249)	40,389,517
Income (loss) from operations	4,861,490	(122)	(1,248,924)	(547,938)	50,926	22,902	3,138,334
Nonoperating gains (losses)							
Investment income	335,536	10	-	-	2,394	-	337,940
Interest earnings on restricted assets	22,299	-	-	-	-	-	22,299
Interest expense	(853,643)		(25,017)				(878,660)
Gain on disposal of assets	(1,675)	-	-	-	-	-	(1,675)
Other nonoperating gains	123,551	(84,433)	27,147	683	-	167,264	234,212
Total nonoperating gains (losses)	(373,932)	(84,423)	2,130	683	2,394	167,264	(285,884)
Excess of revenue over (under) expenses	4,487,558	(84,545)	(1,246,794)	(547,255)	53,320	190,166	2,852,450
Transfer from (to) affiliates	(2,105,000)	-	1,475,000	630,000	-	-	-
Change in net assets	2,382,558	(84,545)	228,206	82,745	53,320	190,166	2,852,450
Net assets - beginning of year	13,464,104	84,984	157,639	152,362	148,972	(190,166)	13,817,895
Net assets - end of year	$ 15,846,662	$ 439	$ 385,845	$ 235,107	$ 202,292	$ -	$ 16,670,345

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

CPAS / ADVISORS

blue

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

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

We have audited the financial statements of the Highland County Joint Township Hospital District as of and for the year ended December 31, 2006, and have issued our report thereon dated May 17, 2007. 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.

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.

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.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

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

May 17, 2007

Mary Taylor, CPA
Auditor of State

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 14, 2007

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