Highland County Joint Township Hospital District

Consolidated Financial Report

December 31, 2003

Auditor of State
Betty Montgomery

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

We have reviewed the Independent Auditor's Report of the Joint Township Hospital of Highland County, prepared by Plante & Moran, for the audit period January 1, 2003 to December 31, 2003. 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 Joint Township Hospital of Highland County is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 14, 2004

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Highland County Joint Township Hospital District

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Plante & Moran, PLLC
110 E. Main St.
P.O. Box 765
Lancaster, OH 43130-0765
Tel: 740.653.7144
Fax: 740.653.2947
plantemoran.com

Independent Auditor's Report

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 accompanying consolidated and consolidating financial statements of Highland County Joint Township Hospital District (Hospital) and Subsidiaries (Highland District Hospital Foundation, Inc., Highland Joint Township District Hospital Foundation, PFW Professional Service Corporation and Highland District Hospital Professional Services Corporation) as of December 31, 2003 and 2002, and for the years then ended, as listed in the table of contents. These consolidated and consolidating financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated and consolidating 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 consolidated and consolidating financial statements referred to above present fairly, in all material respects, the financial position of Highland County Joint Township Hospital District and subsidiaries as of December 31, 2003 and 2002, and the changes in financial position, including cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2004, 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.

The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the financial statements of the Hospital. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

March 12, 2004

Management's Discussion and Analysis

The discussion and analysis of Highland County Joint Township Hospital District's (the Organization) consolidated financial statements provides an overview of the Organization's financial activities for the year ended December 31, 2003. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the discussion and analysis.

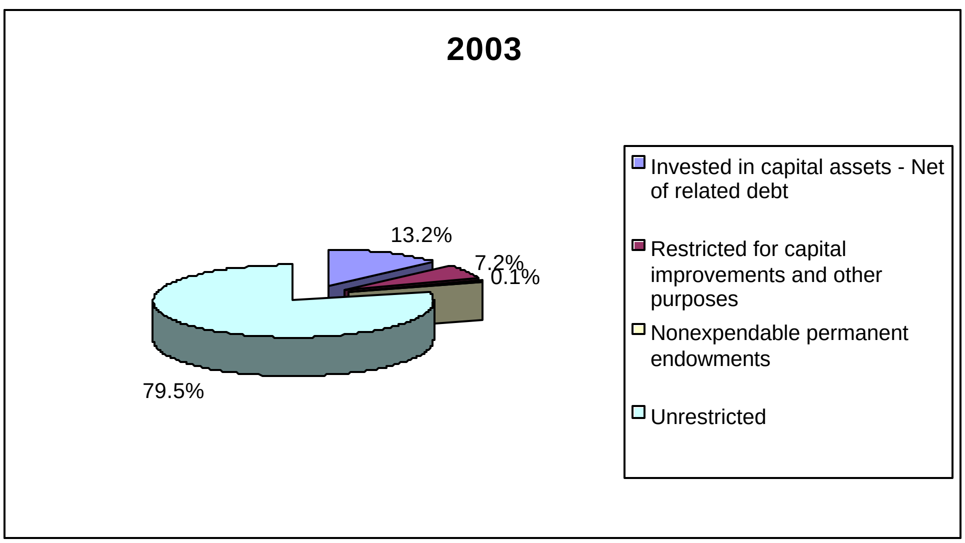
Using this Annual Report

The Organization's financial statements consist of three statements – Balance Sheet, a Statement of Revenues, Expenses, 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 Organization's financial position improved during the year ended December 31, 2003. Cash and cash equivalents increased by $1,062,000 or 48.8 percent, and the current assets increased by $2,039,000 or 21.7 percent from the prior year. In total, the Organization's net assets increased $538,000 or 4.7 percent from the previous year. The increase in net assets resulted from increased patient revenue due to increasing outpatient volumes as well as good expense control.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2003.



In the year ended December 31, 2003, the Organization's revenues and other support exceeded expenses, creating an increase in net assets of $538,000 compared to a $1,472,000 decrease in the previous year.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the Organization as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Organization's operating results.

These two statements report the Organization's net assets and changes in them. You can think of the Organization's net assets - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Organization.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Financial Information

The following is a comparative analysis of the major components of the Balance Sheet of the Organization as of December 31, 2003:

	Year Ended December 31		Change	
	2003	2002	Amount	Percent
Current assets	$11,422,393	$ 9,383,326	$ 2,039,067	21.7%
Non-current assets	3,604,020	3,817,327	(213,307)	-5.6%
Capital assets	13,944,576	15,364,833	(1,420,257)	-9.2%
Total assets	28,970,989	28,565,486	405,503	1.4%
Current liabilities	5,061,895	4,476,450	585,445	13.1%
Long-term liabilities	11,976,919	12,694,827	(717,908)	-5.7%
Total liabilities	17,038,814	17,171,277	(132,463)	-0.8%
Net assets				
Invested in capital assets, net of debt	1,576,383	2,412,359	(835,976)	-34.7%
Restricted assets	867,509	829,734	37,775	4.6%
Unrestricted	9,488,283	8,152,116	1,336,167	16.4%
Total net assets	**$11,932,175**	**$11,394,209**	**$ 537,966**	4.7%

There were two significant changes in Net Assets during the year. Net Assets Invested in Capital Assets declined in 2003 by $836,000 or 34.7%. This reflects the fact that purchases of new capital assets during the year were less than the depreciation recognized on capital assets. The Organization intentionally limited capital expenditures in order to conserve cash and enhance cash balances. The increase in Unrestricted Net Assets of $1,336,000 or 16.4% reflects the improved operating performance for 2003.

Highland County Joint Township Hospital District

Operating Results for the Year (in thousands)

	(in thousands)		Change	
	2003	2002	Amount	Percent
Operating Revenue				
Net patient service revenue	$ 42,602	$ 39,118	$ 3,484	8.9%
Other	635	479	156	32.6%
Total operating revenue	43,237	39,597	3,640	9.2%
Operating Expenses				
Salaries and wages	16,297	15,864	433	2.7%
Employee benefits	5,268	5,044	224	4.4%
Supplies	5,051	4,663	388	8.3%
Purchased services	5,248	4,523	725	16.0%
Physician fees	2,026	2,123	(97)	-4.6%
Bad debt expense	3,070	3,064	6	0.2%
Depreciation and amortization	2,162	2,157	5	0.2%
Professional fees	384	564	(180)	-31.9%
Utilities	838	763	75	9.8%
Interest	870	913	(43)	-4.7%
Insurance	555	394	161	40.9%
Other	1,007	1,127	(120)	-10.6%
Total operating expenses	42,776	41,199	1,577	3.8%
Income (Loss) from Operations	461	(1,602)	2,063	-128.8%
Non-Operating Gains (Losses)				
Investment income	58	131	(73)	-55.7%
Interest earnings on restricted assets	9	(39)	48	-123.1%
Other	10	38	(28)	-73.7%
Total non-operating gains	77	130	(53)	-40.8%
Increase (Decrease) in Net Assets	538	(1,472)	2,010	-136.5%
Net Assets - Beginning of year	11,394	12,866		
Net Assets - End of year	**$ 11,932**	**$ 11,394**		

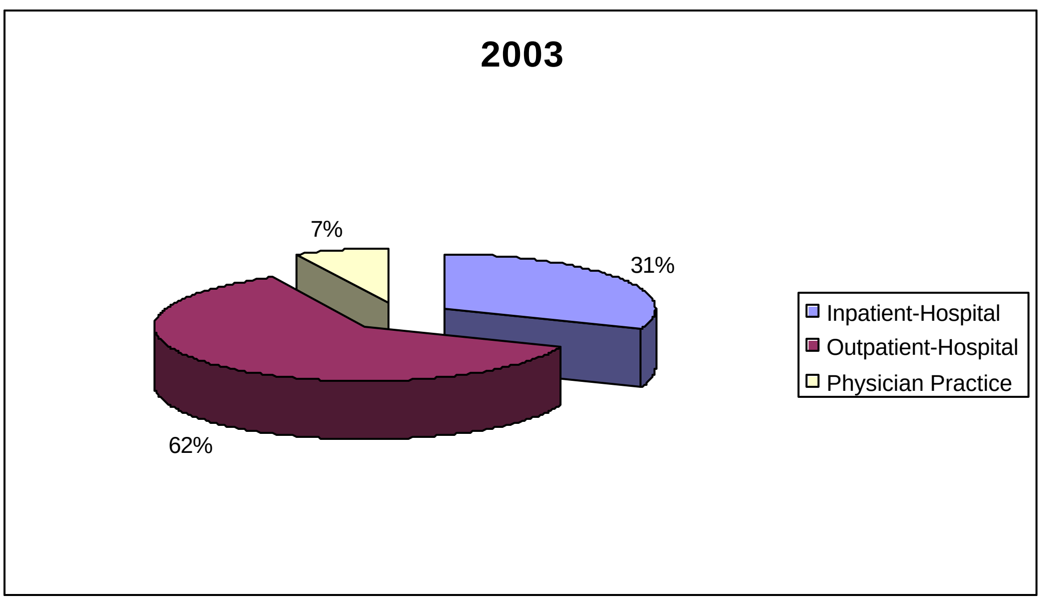
Operating Revenues

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 8.9 percent. This was attributable to a 4 percent increase in charges along with a 3.6 percent increase in adjusted patient days. While inpatient days actually declined by 5.3 percent, significant increases in outpatient visits resulted in a 12.3 percent increase in equivalent outpatient days. Gross patient revenue is reduced by revenue deductions in determining Net Patient Revenue. These deductions include amounts not paid to the Organization under contractual arrangements primarily with Medicare, Medicaid, and Commercial payers as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria. These revenue deductions increased from 36.8 to 38.0 percent of gross revenue.

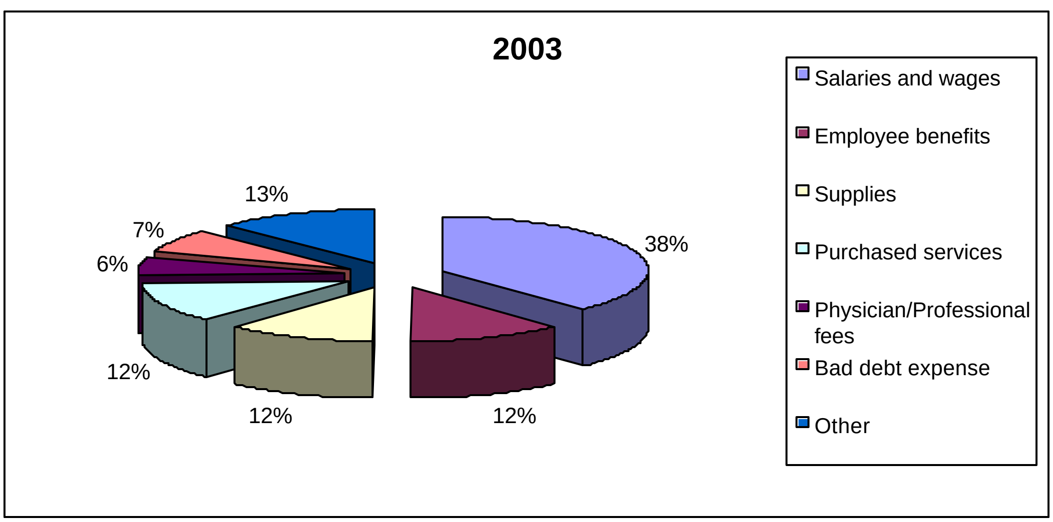
- Other operating revenue increased 32.6 percent due primarily to more donations received by the Hospital's Foundation.
- The following is a graphic illustration of patient revenues by source:



Operating Expenses

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

- Salary costs increased only 2.7 percent due to a 2.9 percent decrease in the number of FTE's while salary increases were implemented to maintain market competitiveness.
- Benefit costs increased 4.5 percent due primarily to increases in worker's compensation premiums.
- Supplies increased 8.3 percent due to increases in drug costs driven by significant increases in the Hospital's oncology program. Other than the increases in pharmacy drug costs, supplies expense actually decreased in 2003 despite increased volumes due to effective cost control and resource management.
- Purchased service costs increased 16.0% due primarily to maintenance and repair costs, volume driven ancillary costs (i.e. MRI and reference laboratory) and staff support provided by outside services.
- Insurance costs increased 40.9 percent which is reflective of the significant increases being experienced in the liability insurance market in general.
- Bad debt expense remained stable as gross charges for self-pay patients increased nominally in 2003. Additionally, a larger proportion of self-pay patients qualified for charity write-offs based upon pre-established financial need criteria.
- Physician fees, professional fees and other expenses decreased in 2003 compared to 2002 due to cost containment and reduction efforts.
- The following is a graphic illustration of operating expenses by type:



Non-Operating Revenue

Non-operating revenue and expenses are all sources and uses that are primarily non-exchange in nature. They consist primarily of investment income including realized and unrealized gains and losses. The decline in non-operating revenue in 2003 is reflective of the significantly lower interest rate environment during the year.

Other Revenue/Changes in Net Assets

Other revenue/changes in net assets consist of items that are typically nonrecurring, extraordinary, or unusual to the Organization. Examples would be capital grants, additions to permanent endowments, and transfers from related entities. While there was no other revenue/changes in net assets on a consolidated basis, transfers to/from related entities are reflected in the consolidating information.

Statement of Cash Flows

Another way to assess the financial health of a Hospital is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also 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

	(in thousands) 2003	2002	Increase (Decrease)
Cash provided (used) by:			
Operating and non-operating activities	$ 2,960	$ 1,429	$ 1,531
Capital and related financing activities	(2,205)	(1,216)	(989)
Investing activities	307	441	(134)
Net increase in cash	1,062	654	408
Cash - Beginning of the year	2,177	1,523	(1)
Cash - End of year	**$ 3,239**	**$ 2,177**	**$ 407**

The Organization's liquidity improved during the year. The following discussion highlights the most significant items of cash flows presented above.

Cash provided by operating activities increased $1,531,000 over the prior year. This was due to the increase in cash received from patients and third-party payors, which increased $2,883,000 while cash paid to employees and suppliers increased only $1,046,000.

Statement of Cash Flows (Cont.)

Cash used by capital and related financing activities increased by $989,000 primarily because there was no new debt issued in 2003 compared to $738,000 in 2002. Although capital expenditures increased by $231,000, the Organization continued to exercise restraint in capital spending in order to improve the overall cash and debt positions.

Cash provided by investing activities decreased by $134,000. Forgiveness of advances to physicians provided $291,000 over last year, but there were additional net purchases of investments of $44,000 in 2003, compared to net sales of investments of $285,000 in 2002.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2003, the Organization had $13,945,000 invested in capital assets, net of accumulated depreciation of $14,018,000. Depreciation and amortization totaled $2,162,000 for the current year compared to $2,157,000 last year. Details of the historical cost of these assets for the past two years are shown below.

	(in thousands) 2003	2002	Increase (Decrease)
Land	$ 15	$ 15	$ -
Land improvements	1,028	1,024	4
Buildings	10,852	10,821	31
Equipment	15,782	15,479	303
Construction in progress	286	261	25
Total	**$ 27,963**	**$ 27,600**	**$ 363**

Debt

At year-end, the Organization had $12,695,000 in debt outstanding as compared to $13,385,000 the previous year. The table below summarizes these amounts by type of debt instrument:

	(in thousands) 2003	2002	Increase (Decrease)
Lease Obligations	$ 897	$ 1,187	$ (290)
Bonds and Loans Payable	11,798	12,198	(400)
Long-Term Liabilities	**$ 12,695**	**$ 13,385**	**$ (690)**

The Organization has paid down its debt obligations as prescribed in the debt schedules. More detailed information about the Organization's long-term liabilities is presented in the footnotes to the financial statements.

Economic Factors That Will Affect the Future

The economic position of the Organization is directly impacted by the 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 Organization 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 Authority's Management

This financial report is intended to provide the reader with a general overview of the Organization's finances. If you have questions about this report or need additional information, we welcome you to contact the Chief Financial Officer.

Robert E. Kerr
Chief Financial Officer

	December 31	
	2003	2002
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 2,998,777	$ 1,946,050
Assets limited as to use, current portion (Note 2)	673,826	654,435
Patient accounts receivable (Note 3)	6,279,526	5,387,485
Inventories	446,278	343,329
Prepaid expenses and other current assets	426,289	539,672
Accrued interest receivable	13,605	21,431
Notes and grants receivable, current portion (Note 4)	293,088	408,947
Other receivables	291,004	81,977
Total current assets	11,422,393	9,383,326
Assets Limited as To Use (Note 2)		
Total assets limited as to use	3,556,778	3,494,417
Less amounts to meet current obligations	(673,826)	(654,435)
Assets limited to use, noncurrent portion	2,882,952	2,839,982
Capital Assets (Notes 5,7)	13,944,576	15,364,833
Other Assets		
Notes and grants receivable - net of current portion (Note 4)	304,386	466,201
Intangible assets	308,000	379,000
Unamortized financing costs, net	108,682	132,144
Total other assets	721,068	977,345
Total assets	**$ 28,970,989**	**$ 28,565,486**

Consolidated Balance Sheet

	December 31 2003	December 31 2002
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 718,552	$ 690,009
Accounts payable - trade	1,470,697	1,585,607
Accounts payable - construction (Note 12)	76,074	76,074
Accrued liabilities (Note 8)	2,205,887	2,001,741
Estimated amounts due third-party payors (Note 6)	590,685	123,019
Total current liabilities	5,061,895	4,476,450
Long-Term Debt, Net of Current Portion (Note 7)	11,976,919	12,694,827
Net Assets		
Invested in capital assets net of related debt	1,576,383	2,412,359
Restricted:		
Expendable for capital improvements and other purposes	856,299	829,734
Nonexpendable permanent endowments	11,210	-
Unrestricted	9,488,283	8,152,116
Total net assets	11,932,175	11,394,209
Total liabilities and net assets	**$ 28,970,989**	**$ 28,565,486**

Highland County Joint Township Hospital District

Consolidated Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2003	2002
Operating Revenue		
Net patient service revenue (Note 9)	$ 42,601,998	$ 39,118,602
Other operating revenue	635,089	478,840
Total operating revenue	43,237,087	39,597,442
Operating Expenses		
Salaries and wages	16,296,504	15,863,653
Employee benefits	5,268,327	5,044,086
Supplies	5,050,792	4,663,455
Purchased services	5,248,122	4,523,312
Physician fees	2,026,505	2,123,409
Bad debt expense	3,070,503	3,064,415
Depreciation and amortization	2,162,427	2,156,502
Professional fees	384,285	563,797
Utilities	837,875	762,541
Interest	869,644	912,857
Insurance	554,728	394,421
Other	1,006,118	1,127,236
Total operating expenses	42,775,830	41,199,684
Income (Loss) from Operations	461,257	(1,602,242)
Non-Operating Gains		
Investment income	57,851	131,247
Interest earnings on restricted assets	9,141	(39,730)
Gain on disposal of assets	1,995	3,452
Other non-operating gains	7,722	35,308
Total non-operating gains	76,709	130,277
Increase (Decrease) in Net Assets	537,966	(1,471,965)
Net Assets - Beginning of Year	11,394,209	12,866,174
Net Assets - End of Year	**$ 11,932,175**	**$ 11,394,209**

Highland County Joint Township Hospital District

Consolidated Statement of Cash Flows

	Year Ended December 31	
	2003	2002
Cash Flows from Operating and Non-Operating Activities		
Cash received from patients and third-party payors	$ 39,196,624	$ 36,313,610
Cash payments to suppliers for services and goods	(15,382,923)	(14,816,865)
Cash payments to employees for services	(21,360,685)	(20,880,657)
Other operating revenue received	506,580	812,644
Net cash provided by operating and non-operating activities	2,959,596	1,428,732
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(653,426)	(422,306)
Principal payments on bonds	(399,788)	(383,129)
Interest paid on long-term debt	(869,644)	(912,857)
Issuance of long-term debt	-	737,532
Principal payments on capital leases	(289,577)	(300,170)
Proceeds from sale of capital assets	7,713	64,803
Net cash used in capital and related financing activities	(2,204,722)	(1,216,127)
Cash Flows from Investing Activities		
Advances to physicians - net of forgiveness	277,674	(13,798)
Income received on investments	65,677	134,604
Income from other non-operating gains	7,722	35,308
Purchases of investments	(7,234,776)	(6,283,142)
Proceeds from sale of investments	7,190,572	6,568,158
Net cash provided by investing activities	306,869	441,130
Net Increase in Cash and Cash Equivalents	1,061,743	653,735
Cash and Cash Equivalents - Beginning of year	2,176,980	1,523,245
Cash and Cash Equivalents - End of year (Note 2)	**$ 3,238,723**	**$ 2,176,980**

Consolidated Statements of Cash Flows (Continued)

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

	Year Ended December 31	
	2003	2002
Cash Flows from Operating Activities and Non-Operating Gains		
Income (Loss) from operations	$ 461,257	$ (1,602,242)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	2,162,427	2,156,502
Provision for bad debts	3,070,503	3,064,415
Interest considered capital financing activity	869,644	912,857
(Increase) decrease in assets		
Patient receivables	(3,962,544)	(2,749,560)
Other receivables	(209,027)	333,804
Inventory	(102,949)	(36,646)
Prepaid expenses	113,383	(262,146)
Increase (decrease) in liabilities		
Accounts payable	(114,910)	(602,477)
Accrued payroll	2,225	27,082
Accrued expenses	201,921	146,199
Estimated amounts due third-party payors	467,666	40,944
Net cash provided by operating and non-operating activities	**$ 2,959,596**	**$ 1,428,732**

Supplemental Cash Flow Information		
Assets acquired via capital lease	**$ -**	**$ 591,246**

Highland County Joint Township Hospital District

Consolidating Balance Sheet Accounts
December 31, 2003

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminations	Total
Assets							
Current Assets							
Cash and cash equivalents	$ 2,880,548	$ 633	$ 69,515	$ 27,102	$ 20,979	$ -	$ 2,998,777
Assets limited as to use, current portion	673,826	-	-	-	-	-	673,826
Patient accounts receivable, net	5,700,383	-	475,855	-	103,288	-	6,279,526
Intercompany receivable	434,321	-	-	5,425	-	(439,746)	-
Inventories	446,278	-	-	-	-	-	446,278
Prepaid expenses and other current assets	301,424	-	57,997	-	66,868	-	426,289
Accrued interest receivable	13,605	-	-	-	-	-	13,605
Notes and grants receivable, current portion	293,088	-	-	-	-	-	293,088
Other receivables	287,497	-	1,000	-	2,507	-	291,004
Total current assets	11,030,970	633	604,367	32,527	193,642	(439,746)	11,422,393
Assets Limited as to Use							
Restricted by contributors for capital improvements and other purposes	838,874	-	-	17,425	-	-	856,299
Principal of permanent endowments	-	-	-	11,210	-	-	11,210
Designated by Board for capital improvements and employee benefits	1,367,534	-	-	-	-	-	1,367,534
Held by Trustee, under bond indenture agreements	1,321,735	-	-	-	-	-	1,321,735
Total assets limited as to use	3,528,143	-	-	28,635	-	-	3,556,778
Less amounts to meet current obligations	(673,826)	-	-	-	-	-	(673,826)
Assets limited to use, noncurrent portion	2,854,317	-	-	28,635	-	-	2,882,952
Capital Assets, Net	13,302,481	-	625,442	-	16,653	-	13,944,576
Other Assets							
Notes and grants receivable, net of current portion	304,386	-	-	-	-	-	304,386
Intangible assets	-	-	35,000	-	273,000	-	308,000
Unamortized financing costs, net	107,235	-	-	-	1,447	-	108,682
Other investments	100,000	84,433	-	-	-	(184,433)	-
Total other assets	511,621	84,433	35,000	-	274,447	(184,433)	721,068
Total assets	**$ 27,699,389**	**$ 85,066**	**$ 1,264,809**	**$ 61,162**	**$ 484,742**	**$ (624,179)**	**$ 28,970,989**

Highland County Joint Township Hospital District

Consolidating Balance Sheet Accounts (Continued)
December 31, 2003

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminations	Total
Liabilities and Net Assets							
Current Liabilities							
Current portion of long-term debt	$ 597,752	$ -	$ 6,510	$ -	$ 114,290	$ -	$ 718,552
Accounts payable - trade	1,336,775	-	127,564	-	6,050	308	1,470,697
Intercompany payable	-	-	434,321	-	-	(434,321)	-
Accounts payable - construction	76,074	-	-	-	-	-	76,074
Accrued liabilities	2,015,875	-	107,877	-	82,135	-	2,205,887
Estimated amounts due third-party payors	590,685	-	-	-	-	-	590,685
Total current liabilities	4,617,161	-	676,272	-	202,475	(434,013)	5,061,895
Long-Term Debt, Net of Current Portion	11,567,383	-	196,548	-	212,988	-	11,976,919
Net Assets							
Invested in capital assets - net of related debt	1,137,346	-	422,384	-	16,653	-	1,576,383
Restricted:							
Expendable for capital improvements and other purposes	838,874	-	-	17,425	-	-	856,299
Nonexpendable permanent endowments	-	-	-	11,210	-	-	11,210
Unrestricted	9,538,625	85,066	(30,395)	32,527	52,626	(190,166)	9,488,283
Total net assets	11,514,845	85,066	391,989	61,162	69,279	(190,166)	11,932,175
Total liabilities and net assets	**$ 27,699,389**	**$ 85,066**	**$ 1,264,809**	**$ 61,162**	**$ 484,742**	**$ (624,179)**	**$ 28,970,989**

Highland County Joint Township Hospital District

Consolidating Statement of Revenue, Expenses, and Changes in Net Assets
December 31, 2003

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminating	Total
Net Patient Service Revenue	$ 39,654,994	$ -	$ 2,008,614	$ -	$ 1,412,179	$ (473,789)	$ 42,601,998
Other Operating Revenue	571,883	-	209	143,259	256	(80,518)	635,089
Total revenue	40,226,877	-	2,008,823	143,259	1,412,435	(554,307)	43,237,087
Operating Expenses							
Salaries and wages	13,483,719	-	1,642,538	-	1,170,247	-	16,296,504
Employee benefits	4,753,172	-	324,472	-	190,683	-	5,268,327
Supplies	4,913,012	-	87,449	3,003	47,328	-	5,050,792
Purchased services	4,681,825	-	517,079	-	69,764	(20,546)	5,248,122
Physician fees	2,205,961	-	294,333	-	-	(473,789)	2,026,505
Bad debt expense	2,810,948	-	213,839	-	45,716	-	3,070,503
Depreciation	1,959,988	-	158,780	-	43,659	-	2,162,427
Professional fees	384,285	-	-	-	-	-	384,285
Utilities	722,679	-	76,555	-	38,641	-	837,875
Interest	825,394	-	13,073	-	31,177	-	869,644
Insurance	506,321	611	19,155	535	28,106	-	554,728
Other	257,344	49	392,535	99,925	336,783	(80,518)	1,006,118
Total operating expenses	37,504,648	660	3,739,808	103,463	2,002,104	(574,853)	42,775,830
Income (Loss) from Operations	2,722,229	(660)	(1,730,985)	39,796	(589,669)	20,546	461,257
Non-Operating Gains							
Investment income	57,851	-	-	-	-	-	57,851
Interest earnings on retricted assets	9,141	-	-	-	-	-	9,141
Gain on disposal of assets	1,995	-	-	-	-	-	1,995
Other non-operating gains	-	166	24,705	1,093	2,304	(20,546)	7,722
Total non-operating gains	68,987	166	24,705	1,093	2,304	(20,546)	76,709
Revenue in Excess of Expenses (Expenses in Excess of Revenue	2,791,216	(494)	(1,706,280)	40,889	(587,365)	-	537,966
Transfer from(to) Affiliates	(2,270,000)	-	1,554,333	-	715,667	-	-
Increase (Decrease) in Net Assets	521,216	(494)	(151,947)	40,889	128,302	-	537,966
Net Assets - Beginning of Year	10,993,629	85,560	543,936	20,273	(59,023)	(190,166)	11,394,209
Net Assets - End of Year	**$ 11,514,845**	**$ 85,066**	**$ 391,989**	**$ 61,162**	**$ 69,279**	**$ (190,166)**	**$ 11,932,175**

Highland County Joint Township Hospital District

Consolidating Statement of Cash Flows
December 31, 2003

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminations	Total
Cash Flows from Operating and Non-Operating Activities							
Cash received from patients and third-party payors	$ 36,046,916	$ -	$ 1,765,323	$ -	$ 1,384,385	$ -	$ 39,196,624
Cash payments to suppliers for services and goods	(13,333,858)	(660)	(1,381,001)	(103,463)	(599,280)	35,339	(15,382,923)
Cash payments to employees for services	(18,047,441)	-	(1,928,078)	-	(1,370,373)	(14,793)	(21,360,685)
Other operating revenue received	358,029	-	7,543	143,259	(2,251)	-	506,580
Net cash provided by (used in) operating and non-operating activities	5,023,646	(660)	(1,536,213)	39,796	(587,519)	20,546	2,959,596
Cash Flows from Capital and Related Financing Activities							
Acquisition and construction of capital assets	(581,151)	-	(72,275)	-	-	-	(653,426)
Principal payments on bonds and notes	(288,784)	-	(5,920)	-	(105,084)	-	(399,788)
Interest paid on long-term debt	(825,394)	-	(13,073)	-	(31,177)	-	(869,644)
Principal payments on capital leases	(289,577)	-	-	-	-	-	(289,577)
Proceeds from sale of capital assets	7,713	-	-	-	-	-	7,713
Net cash used in capital and related financing activities	(1,977,193)	-	(91,268)	-	(136,261)	-	(2,204,722)
Cash Flows from Investing Activities							
Advances to physicians - net of forgiveness	277,674	-	-	-	-	-	277,674
Income received on investments	65,677	-	-	-	-	-	65,677
Income from other non-operating gains	-	166	24,705	1,093	2,304	(20,546)	7,722
Transfer to(from) affiliates	(2,270,000)	-	1,554,333	-	715,667	-	-
Purchases of investments	(7,234,776)	-	-	-	-	-	(7,234,776)
Proceeds from sale of investments	7,190,572	-	-	-	-	-	7,190,572
Net cash provided by (used in) investing activities	(1,970,853)	166	1,579,038	1,093	717,971	(20,546)	306,869
Net Increase in Cash and Cash Equivalents	1,075,600	(494)	(48,443)	40,889	(5,809)	-	1,061,743
Cash and Cash Equivalents - Beginning of year	2,016,259	1,127	117,958	14,848	26,788	-	2,176,980
Cash and Cash Equivalents - End of year (Note 2)	**$ 3,091,859**	**$ 633**	**$ 69,515**	**$ 55,737**	**$ 20,979**	**$ -**	**$ 3,238,723**

Note 1 – Nature of Business and Significant Accounting Policies

Reporting Entity/Basis of Consolidation – The accompanying consolidated financial statements include the accounts of Highland County Joint Township 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 inter-company transactions and balances have been eliminated in consolidation.

Highland County Joint Township Hospital District is a 65-bed, 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 appoint the Hospital Board of Governors, which is composed of one member from each township and three at-large members.

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

Also during 1999, the Hospital formed the Highland District Hospital Professional Services Corporation (PSC) as a not-for-profit corporation under the Internal Revenue Code 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 (HJTD Foundation) as a not-for-profit corporation under the Internal Revenue Code 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 the Internal Revenue Code 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 generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* issued June 1999. The Hospital now follows the "business-type" activities reporting requirements of GASB

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

Reporting Entity/Basis of Consolidation (Continued)

Statement No. 34 that provide a comprehensive one-line look at the Organization's financial activities. There was no impact to the net assets of the Organization in adopting GASB No. 34. No component units are required to be reported in the Organization's financial statements. 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, food, and drugs, are valued at the lower of cost, determined by the first-in, first-out method, or market.

Assets Limited as to Use – Assets limited to use consist of invested funds designated by the Hospital's Board of Governors for employee benefits, the replacement, improvement, and expansion of the Hospital's facilities, and invested funds restricted in connection with the Hospital's 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. Cost of 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 $22,902 and $1,722 in 2003 and 2002, 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. Amortization expense totaled $560 in 2003 and 2002.

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

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 over 10-year and 5-year periods, respectively. Amortization expense related to the acquisition of PSC totaled $35,000 in 2003 and 2002. Amortization expense related to the acquisition of PFW totaled $36,000 in 2003 and 2002, respectively.

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

Classification of 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 non-capital 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 net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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

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

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

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

Income from Operations – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating 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.

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 fifty-percent 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.

Reclassifications - Certain amounts have been reclassified in 2002 to conform to current year presentation.

Note 2 – Deposits and Investments

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

	2003		2002	
	Fair value	Amortized Historical Cost	Fair value	Amortized Historical Cost
Demand deposits and money market accounts	$ 3,238,723	$ 3,238,723	$ 2,176,980	$ 2,176,980
Stocks	83,513	13,250	71,888	13,250
U.S. Government Obligations	3,233,319	3,238,674	3,191,599	3,197,240
Total	**$6,555,555**	**$6,490,647**	**$5,440,467**	**$5,387,470**

	2003		2002	
Amounts summarized by fund type:	Fair value	Amortized Historical Cost	Fair value	Amortized Historical Cost
General funds				
Cash	$ 2,998,777	$ 2,998,777	$ 1,946,050	$ 1,946,050
Assets limited as to use	3,556,778	3,480,660	3,494,417	3,441,420
	$6,555,555	**$6,479,437**	**$5,440,467**	**$5,387,470**

At December 31, 2003, the bank balance of the Organization's demand deposits and money market accounts totaled $3,273,722. Of this balance, $280,784 was covered by federal depository insurance and $2,992,938 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 Organization's agent in the Organization's name. Investments in common stock were held by the Organization in the Organization's name.

Note 2 – Deposits and Investments (Continued)

Assets Limited as to Use - The composition of assets whose use is limited is set forth below:

	2003	2002
Restricted by contributors for capital improvements and other purposes	$ 856,299	$ 846,184
Principal of permanent endowments	11,210	-
Designated by Board for capital improvements and employee benefits	1,367,534	1,337,748
Held by trustee, under Bond Indenture agreements	1,321,735	1,310,485
Total assets limited as to use	**$ 3,556,778**	**$ 3,494,417**

Note 3 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2003	2002
Total patient accounts receivable	$ 11,639,526	10,297,485
Less allowance for:		
Uncollectible accounts	(1,813,000)	(1,888,000)
Contractual adjustments	(3,547,000)	(3,022,000)
Net patient accounts receivable	**$ 6,279,526**	**$ 5,387,485**

Note 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:

	2003	2002
Notes and grants receivable	$ 597,474	$ 875,148
Less: Current portion	(293,088)	(408,947)
Long term portion	**$ 304,386**	**$ 466,201**

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	2002	Additions	Retirements	2003	Depreciable Life - Years
Land	$ 15,437	$ -	$ -	$ 15,437	
Land improvements	1,024,241	3,464	-	1,027,705	
Buildings	10,821,016	32,871	(2,000)	10,851,887	15-40
Equipment	13,824,265	592,303	(289,577)	14,126,991	40
Equipment - capital leases	1,654,778	-	-	1,654,778	3-25
Construction in progress	261,002	24,788	-	285,790	5
Total	27,600,739	653,426	(291,577)	27,962,588	
Less accumulated depreciation					
Land	-	-	-	-	
Land improvements	406,603	137,973	-	544,576	
Buildings	3,764,797	570,963	(2,000)	4,333,760	
Equipment	7,889,037	729,434	(283,859)	8,334,612	
Equipment - capital leases	175,469	629,595	-	805,064	
Construction in progress	-	-	-	-	
Total	12,235,906	2,067,965	(285,859)	14,018,012	
Net carrying amount	**$ 15,364,833**	**$ (1,414,539)**	**$ (5,718)**	**$ 13,944,576**	

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

Approximately 55 percent of the Hospital's revenue from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

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. Beginning August 1, 2000, reimbursement for most outpatient services are based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until December 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000. These hold harmless provisions have been extended to January 1, 2006, under the Medicare Modernization Act of 2003.

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

The Medicaid payment system is a prospective one. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

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 financial statements.

Note 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 percent, 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 percent, beginning February 26, 2001. The bonds are secured by future revenues of the Hospital.

On November 29, 2001, the 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 percent, 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 percent, beginning September 13, 2001, and matures in August 2006. The loan is secured by all business assets of PFW. PFW is bound by the terms of the loan agreements to various operational and financial covenants, including maintaining a minimum debt service ratio of 1.25 to 1.

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 percent through January 2007, and are collateralized by the equipment leased. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation expense for 2003 and 2002.

Note 7 – Long-Term Debt (Continued)

Long-term debt activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds, and loans payable:					
Lease obligations	$ 1,187,081	$ -	$ (289,577)	$ 897,504	$ 300,292
Bonds and loans payable	12,197,755	-	(399,788)	11,797,967	418,260
Total leases, bonds, and loans payable	**$ 13,384,836**	**$ -**	**$ (689,365)**	**$ 12,695,471**	**$ 718,552**

The following is a schedule of bond and loan principal and interest, and future minimum lease payments as of December 31, 2003.

	Bonds and Loans Payable	Bonds and Loans Interest	Lease Payable
2004	$ 418,260	$ 788,826	$ 338,463
2005	462,385	759,575	303,971
2006	285,077	731,540	300,835
2007	232,849	716,519	25,070
2008	233,357	700,827	-
2009-2013	1,350,554	3,255,723	-
2014-2018	1,919,043	2,725,921	-
2019-2023	2,546,442	2,001,986	-
Thereafter	4,350,000	1,083,375	-
Total payments	**$ 11,797,967**	**$ 12,764,292**	968,339
Less amount representing interest			(70,835)
Total			**$ 897,504**

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

	2003	2002
Cost of equipment under capital lease	$ 1,654,778	$ 1,654,778
Less accumulated amortization	805,064	175,469
Net carrying amount	**$ 849,714**	**$ 1,479,309**

Note 8 – Accrued Liabilities

The details of accrued liabilities at December 31, 2003 and 2002, are as follows:

	2003	2002
Payroll and related amounts	$ 516,001	$ 513,776
Compensated absences	963,724	917,319
Workers compensation premiums	400,218	259,390
Professional liability claims (Note 11)	120,000	120,000
Pension	134,913	119,381
Interest	71,031	71,875
Total accrued liabilities	**$2,205,887**	**$2,001,741**

Note 9 – Net Patient Service Revenue

Net patient service revenue consists of the following.

	2003	2002
Revenue:		
Inpatient services		
Routine services	$ 6,718,064	$ 6,524,006
Ancilliary services	14,676,611	14,565,804
Outpatient services	47,267,115	39,275,491
Total patient revenue	68,661,790	60,365,301
Revenue deductions		
Provision for contractual allowances	24,619,508	20,130,748
Provision for charity care	1,440,284	1,115,951
Total revenue deductions	26,059,792	21,246,699
Total net patient service revenue	**$ 42,601,998**	**$ 39,118,602**

Note 10 – Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plans; however, healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees (the Board). OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2003 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2003 employer contribution rate for local government units was 13.55% percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001, were $1,800,706, $1,759,865, and $1,663,046, respectively. Required employer contributions for all plans are equal to 100% of employer charges and must be extracted from the employer's records.

Post-Retirement Benefits – In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 percent was the portion that was used to fund health care during 2003 and 2002, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2003 and 2002 was $664,461 and $649,324, respectively.

Note 10 – Defined Benefit Pension Plan (Continued)

Post-Retirement Benefits (Continued) - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

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 valuation 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. The investment return assumption rate for 2002 was 8.00%. An annual increase of 4.00%, 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 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually. These assumptions and calculations are based on the System's latest Actuarial Review performed as of December 31, 2002.

The number of active contributing participants in the Traditional and Combined Plans during 2003 was 364,881. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for OPEB was $10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

Health Care Plan – In December 2002, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choice Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit.

The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

Note 10 – Defined Benefit Pension Plan (Continued)

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the Board, during 2003, considered extending “Choices” type cost cutting measures to all active members and benefit recipients. As of December 31, 2003, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Note 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.

Note 12 – Litigation

In 2000, the Hospital filed a countersuit against the constructor and a third-party complaint against the architect, construction manager, and manufacturer of the cladding used on the Health Care Center addition. The countersuit was filed in response to a suit filed by the general contractor of the Health Care Center for non-payment. The suits filed by the Hospital are based on the substantial damages caused to the Hospital's property because of defects in the design and construction of the Health Care Center addition. In January 2002, the Hospital reached a settlement with the construction manager for $200,000. The amount of the contract with these parties for the original construction that remains unpaid has been accrued as of December 31, 2003. In March 2004, tentative settlement was reached with all remaining parties and final settlement agreements were being developed, but such amounts had not been received as of the date of this report. All settlements will be recorded when received, net of any correlated asset write-downs.

Plante & Moran, PLLC
110 E. Main St.
P.O. Box 765
Lancaster, OH 43130-0765
Tel: 740.653.7144
Fax: 740.653.2947
plantemoran.com

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

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

We have audited the financial statements of Highland County Joint Hospital District and subsidiaries as of and for the year ended December 31, 2003, and have issued our report thereon dated March 12, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Highland County Joint Hospital District 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These two instances of noncompliance were also reported to management in a report under separate cover dated March 12, 2004.

Condition - During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital a written policy regarding the use of the hospital credit card or cell phone use and related reimbursement However, we noted that the Hospital does follow an approval process in place for reimbursement of such costs.

Criteria – During our testing of Ohio Compliance Supplement, Chapter 7, Part 5 and 6, we noted the above condition. This compliance section relates to Ohio Revised Code Sections 102.03(D) and (E), 2921.42(A)(4), and 2921.43(A).

Recommendation - Management should formalize written policy regarding the use of the hospital credit card or cell phone use and related reimbursement that meet the minimum requirements established under the above mention Ohio Compliance Supplement section.

Internal Control Over Financial Reporting

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

We have issued a letter of recommendations to management regarding certain financial operating and efficiency matters. This report is solely intended for the information and use of the Auditor of the State of Ohio, Board of Trustees and Board of Governors of Highland County Joint 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.

Plante & Moran, PLLC

March 12, 2004

plante moran

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 24, 2004