

**HIGHLAND COUNTY JOINT TOWNSHIP
HOSPITAL DISTRICT**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006



Mary Taylor, CPA
Auditor of State

Board of Trustees and Hospital Board of Governors
Highland County Joint Township Hospital District
1275 N. 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, 2007 through December 31, 2007. 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

June 23, 2008

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HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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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, 2007 and 2006, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006, 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 28, 2008 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when assessing the results of our audit.

Board of Trustees and Hospital Board of Governors
HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

Management's discussion and analysis on pages i through viii is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

May 28, 2008

Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

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, 2007 and 2006. The financial statements reflect combined information for the Hospital and blended component units, therefore, the Management's discussion and analysis will focus on the combined financial statements. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

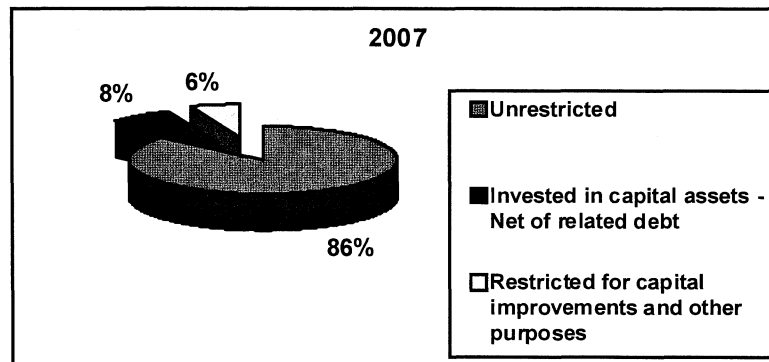
Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's overall financial position improved during the year ended December 31, 2007. Total assets increased \$1,239,869 in 2007 while total liabilities increased \$479,297. Net assets increased \$760,572, or 4.4%, in 2007. 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, 2007.



Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

For the year ended December 31, 2007, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$760,572 compared to a \$592,215 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, 2007:

	Year Ended December 31		
	2007	2006	2005
Assets:			
Current assets	\$ 17,029,368	\$ 16,369,277	\$ 17,360,299
Noncurrent assets	5,849,100	4,067,993	4,173,082
Capital assets	<u>14,830,414</u>	<u>16,031,743</u>	<u>15,214,312</u>
Total assets	37,708,882	36,469,013	36,747,693
Liabilities:			
Current liabilities	5,692,182	3,394,701	4,777,790
Long-term liabilities	<u>13,993,568</u>	<u>15,811,752</u>	<u>15,299,558</u>
Total liabilities	19,685,750	19,206,453	20,077,348
Net assets:			
Invested in capital assets - net of debt	1,386,052	576,652	2,471,815
Restricted assets	1,120,166	1,034,912	971,099
Unrestricted	<u>15,516,914</u>	<u>15,650,996</u>	<u>13,227,431</u>
Total net assets	<u>\$ 18,023,132</u>	<u>\$ 17,262,560</u>	<u>\$ 16,670,345</u>

The increase in net assets is primarily in the invested in capital assets, net of related debt category.

Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	Year Ended December 31		
	2007	2006	2005
Operating revenues			
Net patient service revenue	\$ 43,977,443	\$ 43,191,445	\$ 43,132,169
Other operating revenue	701,492	725,122	395,682
Total operating revenues	44,678,935	43,916,567	43,527,851
Operating expenses			
Salaries and wages	19,286,255	19,079,935	17,850,153
Employee benefits	6,457,125	6,212,468	5,702,385
Supplies	6,100,842	5,952,625	5,748,767
Purchased services	4,257,777	4,997,029	5,555,630
Physician fees	1,764,401	1,291,196	1,037,541
Depreciation and amortization	2,428,521	2,384,809	1,862,431
Professional fees	238,848	148,216	137,861
Utilities	897,678	917,653	947,752
Insurance	619,975	737,007	458,576
Other	1,266,486	1,280,730	1,088,421
Total operating expenses	43,317,908	43,001,668	40,389,517
Income from operations	1,361,027	914,899	3,138,334
Nonoperating gains (losses)			
Investment income	554,322	559,622	337,940
Capital grants	13,817	60,154	-
Interest earned on restricted assets	53,208	35,181	22,299
Interest expense	(818,383)	(979,198)	(878,660)
Other nonoperating gains	(32,658)	1,557	232,537
Total nonoperating gains (losses)	(229,694)	(322,684)	(285,884)
Excess of revenue over expenses	1,131,333	592,215	2,852,450
Change in interest rate swap	(370,761)	-	-
Change in net assets	760,572	592,215	2,852,450
Net assets - beginning of year	17,262,560	16,670,345	13,817,895
Net assets - end of year	\$ 18,023,132	\$ 17,262,560	\$ 16,670,345

Highland County Joint Township Hospital District

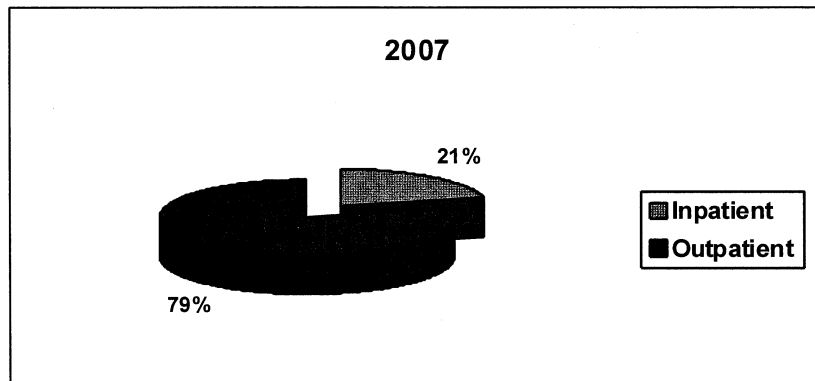
Management's Discussion and Analysis (unaudited)

Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 1.8% in 2007. 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 42.9% in 2006 to 45.3% of gross revenue in 2007.
- The following is a graphic illustration of patient revenues by source:



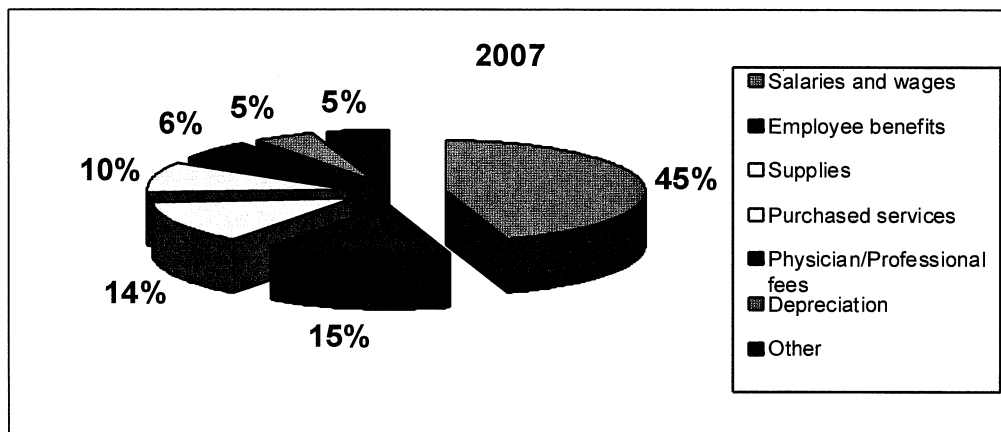
Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The following operating expense changes from 2006 to 2007 were the result of the following factors:

- Salary costs increased 1.1% due primarily to regular increases in pay rates and increases in employees in the affiliated organizations.
- Benefits costs increased 3.9% due to continued increases in group health insurance premiums and increases in the number of full time equivalents.
- Supplies increased 2.5%, due primarily to inflationary increases in supplies purchased.
- Purchased service cost decreased 14.8%, due primarily to the hospital moving certain imaging services in-house.
- Physician fees increased 36.6%, due to the increased use of on-call physicians and full time coverage in-house.
- Depreciation and amortization increased 1.8% due to recent additions to building improvements and equipment.
- The following is a graphic illustration of operating expenses by type:



Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

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 decreased from 2006 to 2007 primarily due to a decrease in interest expense in 2007.

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		
	2007	2006	2005
Cash provided by (used in):			
Operating and nonoperating activities	\$ 5,628,469	\$ 1,325,412	\$ 4,857,692
Capital and related financing activities	(4,043,573)	(3,601,793)	(4,349,395)
Investing activities	(2,410,735)	640,304	916,303
Total	(825,839)	(1,636,077)	1,424,600
Cash - beginning of year	11,028,685	12,664,762	11,240,162
Cash - end of year	<u>\$ 10,202,846</u>	<u>\$ 11,028,685</u>	<u>\$ 12,664,762</u>

Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

The Hospital's overall cash position decreased during 2007 as cash and cash equivalents totaled \$10,202,846 in 2007 compared to \$11,028,685 in 2006. The following highlights some of the significant components of cash flow presented above:

- Cash provided by operating and non-operating activities totaled \$5,628,469, which was \$4,303,057 more than in 2006. This is primarily a result of increased cash received from patients and third-party payors of \$3,100,775 in 2007 and decreased payments to suppliers of \$1,933,034 in 2007, offset by changes in other operating revenue and payments to employees.
- Net cash used in capital and related financing activities was \$4,043,573 in 2007 as compared to net cash used of \$3,601,793 in 2006.
- Net cash used in investing activities was (\$2,410,735) in 2007 compared to \$640,304 in 2006.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2007, the Hospital had \$35,006,581 invested in capital assets, net of accumulated depreciation of \$20,176,168. Depreciation and amortization totaled \$2,428,521 for the current year compared to \$2,384,809 last year. Details of the historical cost of these assets for the past three years are shown below.

	Year Ended December 31		
	2007	2006	2005
Land	\$ 24,937	\$ 15,437	\$ 15,437
Land improvements	683,709	683,709	1,062,049
Buildings and improvements	15,010,232	14,977,728	10,547,655
Equipment	19,280,757	19,062,915	16,637,975
Construction in progress	6,946	-	4,302,281
Total	<u>\$ 35,006,581</u>	<u>\$ 34,739,789</u>	<u>\$ 32,565,397</u>

Highland County Joint Township Hospital District

Management's Discussion and Analysis (unaudited)

Debt

At December 31, 2007, the Hospital had \$13,444,362 in long-term debt outstanding as compared to \$15,455,091 at December 31, 2006 and \$14,986,587 at December 31, 2005. The table below summarizes these amounts by type of debt instrument by year:

	Year Ended December 31		
	2007	2006	2005
Lease obligations	\$ 911,586	\$ 1,197,184	\$ 316,612
Bonds and loans payable	13,155,281	14,257,907	14,669,975
Deferred amount on refunding	(622,505)	-	-
Total long-term debt	<u>\$ 13,444,362</u>	<u>\$ 15,455,091</u>	<u>\$ 14,986,587</u>

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

Economic Factors that Will Affect the Future

On December 1, 2005, the Hospital was granted Critical Access status by the Centers for Medicare and Medicaid Services (CMS). As a result, the Hospital is now reimbursed for Medicare patients at the approximate cost of providing services plus 1%. However, the economic position of the Hospital will be directly impacted by the future trends in federal and state reimbursement initiatives as well as local economic conditions. These factors will continue to pressure the net revenues realized from the delivery of patient care. Accordingly, the Hospital will continue to strive for improved efficiencies and cost reductions so that operating margins can be maintained and enhanced to provide adequate cash flow to meet future community needs.

Contacting the Hospital's Management

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

Thomas A. Degen
Chief Financial Officer

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	\$ 9,286,853	\$ 9,035,156
Assets limited as to use - current portion	272,862	655,598
Patient accounts receivable, net of allowances for uncollectible accounts; \$2,321,099 in 2007 and \$1,504,872 in 2006	5,703,921	5,283,064
Inventories	377,729	411,905
Prepaid expenses and other current assets	806,796	901,491
Accrued interest receivable	30,714	14,413
Notes and grants receivable - current portion	550,493	39,707
Estimated amounts due from third party payors	-	27,943
	17,029,368	16,369,277
Asset whose use is limited		
Restricted by contributors for capital improvements and other purposes	1,102,693	1,017,440
Principal of permanent endowments	17,473	17,473
Designated by Board for capital improvements and employee benefits	3,651,512	1,489,190
Held by trustee under bond indenture agreements	726,582	1,861,872
Total assets limited as to use	5,498,260	4,385,975
Less amounts to meet current obligations	(272,862)	(655,598)
	5,225,398	3,730,377
Capital assets	14,830,414	16,031,743
Other assets		
Notes and grants receivable - net of current portion	285,000	-
Intangible assets	129,000	165,000
Unamortized financing cost - net	209,702	172,616
	623,702	337,616
Total other assets	623,702	337,616
Total assets	\$ 37,708,882	\$ 36,469,013

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current liabilities		
Current portion of long-term debt	\$ 1,111,904	\$ 663,122
Accounts payable	1,316,327	1,033,430
Accrued liabilities	2,625,074	1,698,149
Estimated amounts due to third-party payors	638,877	-
Total current liabilities	<u>5,692,182</u>	<u>3,394,701</u>
Interest rate swap liability	370,761	-
Physician recruitment liability	285,000	-
Compensated absences	1,005,349	1,019,783
Long-term debt, net of current portion	<u>12,332,458</u>	<u>14,791,969</u>
Total liabilities	19,685,750	19,206,453
Net assets		
Invested in capital assets - net of related debt	1,386,052	576,652
Restricted:		
Expendable for capital improvements and other purposes	1,102,693	1,017,439
Nonexpendable permanent endowments	17,473	17,473
Unrestricted	<u>15,516,914</u>	<u>15,650,996</u>
Total net assets	<u>18,023,132</u>	<u>17,262,560</u>
Total liabilities and net assets	<u><u>\$ 37,708,882</u></u>	<u><u>\$ 36,469,013</u></u>

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues		
Net patient service revenue	\$ 43,977,443	\$ 43,191,445
Other operating revenue	701,492	725,122
Total operating revenues	44,678,935	43,916,567
Operating expenses		
Salaries and wages	19,286,255	19,079,935
Employee benefits	6,457,125	6,212,468
Supplies	6,100,842	5,952,625
Purchased services	4,257,777	4,997,029
Physician fees	1,764,401	1,291,196
Depreciation and amortization	2,428,521	2,384,809
Professional fees	238,848	148,216
Utilities	897,678	917,653
Insurance	619,975	737,007
Other	1,266,486	1,280,730
Total operating expenses	43,317,908	43,001,668
Income from operations	1,361,027	914,899
Nonoperating gains (losses)		
Investment income	554,322	559,622
Capital grants	13,817	60,154
Interest earnings on restricted assets	53,208	35,181
Interest expense	(818,383)	(979,198)
Other nonoperating gains	(32,658)	1,557
Total nonoperating gains (losses)	(229,694)	(322,684)
Excess of revenue over expenses	1,131,333	592,215
Other changes in net assets		
Change in interest rate swap	(370,761)	-
Change in net assets	760,572	592,215
Net assets - beginning of year	17,262,560	16,670,345
Net assets - end of year	\$ 18,023,132	\$ 17,262,560

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 44,223,406	\$ 41,122,631
Cash payments to suppliers for services and goods	(13,538,615)	(15,471,649)
Cash payments to employees for services	(25,757,814)	(25,050,692)
Other operating revenue	701,492	725,122
Net cash flows from operating activities	5,628,469	1,325,412
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,063,093)	(1,771,065)
Proceeds from bond issuance	10,180,000	-
Deferred amount on refunding	(622,505)	-
Bond issuance costs	(165,185)	-
Principal payments on bonds	(11,282,626)	(412,068)
Interest paid on long-term debt - net of capitalized interest	(818,383)	(979,198)
Principal payments on capital leases	(285,598)	(499,616)
Capital grants received	13,817	60,154
Net cash flows from capital and related financing activities	(4,043,573)	(3,601,793)
Cash flow from investing activities		
Advances to physicians - net of forgiveness	(795,786)	107,246
Income received on investments	607,530	594,803
Income from other nonoperating gains	(32,658)	1,557
Purchases of investments	(16,357,147)	(4,190,655)
Proceeds from sale of investments	14,167,326	4,127,353
Net cash flows from investing activities	(2,410,735)	640,304
Change in cash and cash equivalents	(825,839)	(1,636,077)
Cash and cash equivalents - beginning of year	11,028,685	12,664,762
Cash and cash equivalents- end of year	\$ 10,202,846	\$ 11,028,685
Balance sheet classification of cash and cash equivalents		
Current assets - cash	\$ 9,286,853	\$ 9,035,156
Assets limited as to use	915,993	1,993,529
Total	\$ 10,202,846	\$ 11,028,685
Supplemental disclosure of non cash activities		
Equipment acquired under capital lease obligation	\$ -	\$ 1,380,188
Amortization of bond financing costs	\$ 164,099	\$ 14,987

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Income from operations	\$ 1,361,027	\$ 914,899
Adjustments to reconcile income from operations to net cash flows from operating activities		
Depreciation and amortization	2,428,521	2,384,809
Provision for bad debt	4,029,466	3,175,963
Change in operating assets and liabilities		
Patient receivables	(4,450,323)	(3,924,401)
Inventories	34,176	35,484
Prepaid expenses and other	78,394	106,000
Accounts payable	282,897	(288,677)
Accrued expenses and compensated absences	1,197,491	241,711
Estimated amounts due from third-party payors	666,820	(1,320,376)
	<u>666,820</u>	<u>(1,320,376)</u>
Net cash from operating activities	<u>\$ 5,628,469</u>	<u>\$ 1,325,412</u>

See accompanying notes to combined financial statement.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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 \$164,099 and \$14,987 in 2007 and 2006, respectively. In 2007, the Hospital incurred costs of \$201,185 relating to the issuance of Hospital Facilities Revenue Refunding bonds. Unamortized bond issuance costs of \$86,044 relating to the 1999 bond issue were written off in 2007. 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 2007 and 2006.

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 2006 to conform to the current year presentation.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Physician Recruitment Agreements

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice for a specified term. Under such agreements, the Hospital is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount of the income guarantee. Income guarantee periods are generally two years. Such payments are recoverable from the physicians in the event that their commitment period is not met, which is typically three years. Should the arrangement between the Hospital and the physician be terminated prior to the end date agreed upon by both parties, the Hospital will pursue collection of any outstanding advances.

In accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business of Its Owners," the Hospital recorded a liability of approximately \$725,000 at December 31, 2007 for the fair value of new guarantees entered into during 2007 with an offsetting asset recorded in notes and grants receivable within the accompanying balance sheet.

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 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 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Net Patient Service Revenue

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

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

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

Income from Operations

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

Charity Care

The Hospital provides care to patients who meet certain criteria under the Hospital's charity policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone for charity care totaled \$2,179,348 and \$1,472,932 for 2007 and 2006, 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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. DEPOSITS AND INVESTMENTS

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

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Demand deposits and money market accounts	\$ 10,202,846	\$ 10,202,846	\$ 11,028,685	\$ 11,028,685
Stocks	117,472	5,787	102,832	5,787
U. S. government obligations	4,464,795	4,443,991	2,289,614	2,280,219
Total	\$ 14,785,113	\$ 14,652,624	\$ 13,421,131	\$ 13,314,691

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Amounts summarized by fund type-				
General funds:				
Cash	\$ 9,286,853	\$ 9,286,853	\$ 9,035,156	\$ 9,035,156
Assets limited as to use	5,498,260	5,365,771	4,385,975	4,279,535
Total	\$ 14,785,113	\$ 14,652,624	\$ 13,421,131	\$ 13,314,691

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

At December 31, 2007, the bank balance of the Organization's demand deposits and money market accounts totaled \$10,274,331. Of this balance, \$396,011 was covered by federal depository insurance and \$9,878,320 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	1-5 years
December 31, 2007			
U.S. Government obligations	<u>\$ 4,464,795</u>	<u>\$ 3,279,399</u>	<u>\$ 1,185,396</u>

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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	<u>2007</u>	<u>2006</u>
Total patient accounts receivable	\$ 12,091,897	\$ 10,347,436
Less allowance for:		
Uncollectible accounts	(2,321,099)	(1,504,872)
Contractual adjustments	<u>(4,066,877)</u>	<u>(3,559,500)</u>
Net patient accounts receivable	<u>\$ 5,703,921</u>	<u>\$ 5,283,064</u>

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:

	<u>2007</u>	<u>2006</u>
Notes and grants receivable	\$ 835,493	\$ 39,707
Less current portion	<u>(550,493)</u>	<u>(39,707)</u>
Long-term portion	<u>\$ 285,000</u>	<u>\$ -</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

5. CAPITAL ASSETS

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

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

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

	2005	Additions	Retirements	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	<u>32,565,397</u>	<u>3,151,253</u>	<u>(976,861)</u>	<u>34,739,789</u>
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	<u>\$ 17,351,085</u>	<u>\$ 2,333,822</u>	<u>\$ (976,861)</u>	<u>\$ 18,708,046</u>
Capital assets, net	<u>\$ 15,214,312</u>	<u>\$ 817,431</u>	<u>\$ -</u>	<u>\$ 16,031,743</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 60% 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

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 2005.

Medicaid

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

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

Other

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. LONG-TERM DEBT

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

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

On November 29, 2001, PSC obtained a \$215,000 mortgage loan to purchase a medical office building and related property. The mortgage is payable in monthly installments of \$1,583, which includes interest at 6.25%, beginning December 29, 2001, and matures in November 2021. The mortgage is secured by the medical office building and property.

On August 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, 2007. The debt is collateralized by a letter of credit at Fifth Third Bank with a maximum credit amount of \$3,522,904 at December 31, 2007.

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, 2008.

\$10,180,000 of variable rate Hospital Facilities Revenue Refunding Bonds (interest at 3.47% at December 31, 2007) were issued in 2007 to refund a total of \$10,450,000 1999 bonds with an interest rate of 6.75%. The refunding reduced the total debt service payments over the next 22 years by approximately \$8,500,000, which represents an economic gain of approximately \$4,000,000.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The Hospital uses derivative financial instruments principally to manage the risk of change in interest rates. During 2007, the Hospital entered into a cash flow hedge interest rate swap agreement. As a result of the swap, the Hospital locked in to an interest rate of 3.942% on \$10,180,000 of the Series 2007 Hospital Facilities Revenue Refunding Bonds. The fair value of the interest rate swap at December 31, 2007 was a liability of \$370,761. This liability has been recorded in long-term liabilities with the related loss on this arrangement deferred as a component of unrestricted net assets. The agreement expires on December 1, 2020.

The Hospital leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 4.99 % to 5.82 % through 2011, and are collateralized by the equipment leased. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value of the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation expense for 2007 and 2006.

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

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

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
	<u>\$ 14,986,587</u>	<u>\$ 1,380,188</u>	<u>\$ (911,684)</u>	<u>\$ 15,455,091</u>	<u>\$ 663,122</u>
Total leases, bonds, and loans payable					

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The following is a schedule of bond and loan principal and interest and future minimum lease payments as of December 31, 2007:

	Bonds and Loans Payable	Bonds and Loans Interest	Lease Payable
2008	\$ 838,086	\$ 431,007	\$ 310,581
2009	843,646	395,893	310,581
2010	849,210	367,472	310,581
2011	859,811	358,268	51,764
2012	865,426	287,996	-
2013-2017	4,438,390	1,105,485	-
2018-2022	3,930,712	352,847	-
2023-2024	530,000	7,324	-
Total payments	13,155,281	3,306,293	983,507
Less deferred amount on refunding	(622,505)	-	-
Less amount representing interest	-	-	(71,921)
Total	\$ 12,532,776	\$ 3,306,293	\$ 911,586

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

	2007	2006
Cost of equipment under capital lease	\$ 2,708,966	\$ 2,708,966
Lease accumulated amortization	1,821,755	1,496,700
Net carrying amount	\$ 887,211	\$ 1,212,266

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

8. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Payroll and related amounts	\$ 1,462,148	\$ 916,285
Physician recruitment liability	439,387	-
Workers' compensation premiums	243,276	290,839
Pension	436,241	410,156
Interest	44,222	80,869
	<u> </u>	<u> </u>
Total accrued liabilities	<u>\$ 2,625,274</u>	<u>\$ 1,698,149</u>

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2007</u>	<u>2006</u>
Revenue:		
Inpatient services:		
Routine services	\$ 6,172,024	\$ 6,166,726
Ancillary services	10,462,494	9,885,340
Outpatient services	<u>63,984,637</u>	<u>59,606,036</u>
Total patient revenue	80,619,155	75,658,102
Revenue deductions:		
Provision for contractual allowances	30,432,898	27,817,762
Provision for bad debt allowances	4,029,466	3,175,963
Provision for charity care	<u>2,179,348</u>	<u>1,472,932</u>
Total revenue deductions	<u>36,641,712</u>	<u>32,466,657</u>
Total net patient service revenue	<u>\$ 43,977,443</u>	<u>\$ 43,191,445</u>

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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 issue 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 13.85% and 9.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2007	\$ 2,173,677
2006	\$ 2,155,163
2005	\$ 2,014,180

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 2007 employer contribution rate of 13.85% used to fund the healthcare was 5% from January 1, 2007 through June 30, 2007 and 6% from July 1, 2007 through December 31, 2007. The 2006 employer contribution rate was 13.7% and the portion 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2006. 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 2006 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 5% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130.

Hospital contributions made to fund post-employment benefits approximated \$785,000, \$708,000 and \$579,000 for 2007, 2006 and 2005, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2006 was \$12.0 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.

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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



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REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

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

We have audited the combined financial statements of Highland County Joint Township Hospital District as of December 31, 2007. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The information in the accompanying schedules on pages 26-31 is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual components and is not a required part of the basic combined financial statements. The information has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

May 28, 2008

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET DECEMBER 31, 2007

ASSETS

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

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING BALANCE SHEET DECEMBER 31, 2007

LIABILITIES AND NET ASSETS

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

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

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	-	134,702.00	62,369	-	(16,493)	1,698,149
Total current liabilities	3,036,559	-	279,861	94,774	-	(16,493)	3,394,701
Compensated absences							
Long-term debt - net of current portion	1,005,375	-	12,213	2,195	-	-	1,019,783
	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	<u>\$ 34,808,822</u>	<u>\$ 210</u>	<u>\$ 1,075,704</u>	<u>\$ 379,382</u>	<u>\$ 221,388</u>	<u>\$ (16,493)</u>	<u>\$ 36,469,013</u>

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

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

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

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

HIGHLAND COUNTY JOINT TOWNSHIP HOSPITAL DISTRICT

COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 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 revenue	<u>40,604,189</u>	<u>-</u>	<u>2,547,513</u>	<u>1,215,959</u>	<u>118,887</u>	<u>(569,981)</u>	<u>43,916,567</u>
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	<u>37,015,573</u>	<u>258</u>	<u>4,273,161</u>	<u>2,204,343</u>	<u>103,803</u>	<u>(595,470)</u>	<u>43,001,668</u>
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 on restricted assets	35,181	-	-	-	-	-	35,181
Interest expense	(965,203)	-	(11,833)	(2,162)	-	-	(979,198)
Other nonoperating gains	(718)	29	24,883	2,852	-	(25,489)	1,557
Total nonoperating gains (losses)	<u>(314,976)</u>	<u>29</u>	<u>13,050</u>	<u>690</u>	<u>4,012</u>	<u>(25,489)</u>	<u>(322,684)</u>
Excess of revenue over (under) expenses	3,273,640	(229)	(1,712,598)	(987,694)	19,096	-	592,215
Transfer from (to) affiliates	<u>(2,970,000)</u>	<u>-</u>	<u>1,935,000</u>	<u>1,035,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	303,640	(229)	222,402	47,306	19,096	-	592,215
Net assets - beginning of year	<u>15,846,662</u>	<u>439</u>	<u>385,845</u>	<u>235,107</u>	<u>202,292</u>	<u>-</u>	<u>16,670,345</u>
Net assets - end of year	<u>\$ 16,150,302</u>	<u>\$ 210</u>	<u>\$ 608,247</u>	<u>\$ 282,413</u>	<u>\$ 221,388</u>	<u>\$ -</u>	<u>\$ 17,262,560</u>

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



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

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

We have audited the combined financial statements of the Highland County Joint Township Hospital District as of and for the year ended December 31, 2007, and have issued our report thereon dated May 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland County Joint Township Hospital District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Highland County Joint Township Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Highland County Joint Township Hospital District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies 2007-1 and 2007-2 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

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 or other matters that are required to be reported under Government Auditing Standards.

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

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

Blue & Co., LLC

May 28, 2008

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

2007-1: Physician Recruitment Asset and Liability

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

Management's Response:

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

2007-2: Interest Rate Swap

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

Management's Response:

We will obtain the fair value of the swap for accounting purposes and make accounting adjustments as necessary to reflect the value of the swap going forward.



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
JULY 3, 2008