Highland County Joint Township Hospital District

Consolidated Financial Report with Additional Information

December 31, 2002

Auditor of State
Betty Montgomery

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

We have reviewed the Independent Auditor's Report of the Highland County Joint Township Hospital District, prepared by Plante & Moran PLLC, for the audit period January 1, 2002 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 24, 2003

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Highland County Joint Township Hospital District

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of Highland County Joint Township Hospital District 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, 2002 and 2001, and the related consolidated statements of revenue and expenses of general funds, changes in fund balances, and cash flows of general funds for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highland County Joint Township Hospital District and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations, changes in their fund balances, and their 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 March 21, 2003, 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.

Plante & Moran, PLLC

March 21, 2003

Highland County Joint Township Hospital District

	December 31	
	2002	2001 As restated
Assets		
General Funds		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,962,500	$ 1,244,027
Assets limited as to use, current portion (Note 2)	654,435	439,997
Patient accounts receivable (Note 3)	5,387,485	5,702,340
Inventories	343,329	306,683
Prepaid expenses and other current assets	539,672	277,526
Accrued interest receivable	21,431	24,788
Notes and grants receivable, current portion (Note 4)	408,947	336,229
Other receivables	81,977	415,781
Total current assets	9,399,776	8,747,371
Assets Limited as To Use (Note 2)		
Total assets limited as to use	2,648,233	2,997,987
Less amounts to meet current obligations	(654,435)	(439,997)
Assets limited to use, noncurrent portion	1,993,798	2,557,990
Property, Plant and Equipment, Net (Notes 5,7)	15,364,833	16,498,499
Other Assets		
Notes and grants receivable - net of current portion (Note 4)	466,201	525,121
Intangible assets	379,000	450,000
Unamortized financing costs, net	132,144	134,426
Total other assets	977,345	1,109,547
Total assets	**$ 27,735,752**	**$ 28,913,407**
Donor Restricted Funds		
Specific Purpose Funds		
Investments (Note 2)	$ 806,750	845,029
Accrued interest receivable	4,079	4,767
Total specific purpose funds	**$ 810,829**	**$ 849,796**
Endowment Funds		
Investments (Note 2)	**$ 18,905**	**$ 19,668**

Highland County Joint Township Hospital District

Consolidated Balance Sheet

	December 31	
	2002	2001 As restated
Liabilities and Fund Balances		
General Funds		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 690,009	$ 463,869
Accounts payable - trade	1,585,607	2,188,084
Accounts payable - construction (Note 11)	76,074	78,721
Accrued expenses - employee compensation	1,431,095	1,404,013
Accrued expenses - other	570,646	424,447
Estimated amounts due third-party payors (Note 6)	123,019	82,075
Total current liabilities	4,476,450	4,641,209
Long-Term Debt, Net of Current Portion (Note 7)	12,694,827	12,275,488
Fund Balance, General Funds	10,564,475	11,996,710
Total Liabilities and Fund Balance	**$ 27,735,752**	**$28,913,407**
Donor-Restricted Funds		
Specific-Purpose Funds - Fund Balance	**$ 810,829**	**$ 849,796**
Endowment Funds - Fund Balance	**$ 18,905**	**$ 19,668**

See Notes to Financial Statements

Highland County Joint Township Hospital District

Consolidated Statement of Revenue and Expenses of General Fund

	Year Ended December 31	
	2002	2001 As restated
Operating Revenue		
Net patient service revenue (Note 8)	$ 39,586,023	$ 35,870,903
Other operating revenue	478,840	452,241
Total operating revenue	40,064,863	36,323,144
Operating Expenses		
Salaries and wages	15,863,653	13,980,255
Employee benefits	5,044,086	3,982,908
Supplies	4,663,455	4,115,470
Purchased services	4,523,312	4,336,033
Physician fees	2,590,830	2,588,006
Bad debt expense	3,064,415	2,349,564
Depreciation and amortization	2,156,502	1,859,624
Professional fees	563,797	550,581
Utilities	762,541	742,410
Interest	912,857	833,458
Insurance	394,421	297,785
Other	1,127,236	657,620
Total operating expenses	41,667,105	36,293,714
Income (Loss) from Operations	(1,602,242)	29,430
Non-Operating Gains (Losses)		
Investment income	131,247	240,768
Gain (Loss) on disposal of assets	3,452	(33,218)
Other non-operating gains	35,308	60,347
Total non-operating gains	170,007	267,897
Revenue and Gains in Excess of Expenses (Expenses in Excess of Revenues and Gains)	**$ (1,432,235)**	**$ 297,327**

Highland County Joint Township Hospital District

Consolidated Statement of Changes in Fund Balances

	Year Ended December 31	
	2002	2001 As restated
General Fund		
Balance - Beginning of year	**$ 11,996,710**	**$ 11,699,383**
Excess of revenue over expenses	(1,432,235)	297,327
Balance - End of year	**$ 10,564,475**	**$ 11,996,710**
Donor Restricted Funds		
Specific Purpose Funds		
Balance - Beginning of year	**$ 849,796**	**$ 811,334**
Investment income (loss)	(38,967)	38,462
Balance - End of year	**$ 810,829**	**$ 849,796**
Endownment Funds		
Balance - Beginning of year	**$ 19,668**	**$ 19,077**
Investment income (loss)	(763)	591
Balance - End of year	**$ 18,905**	**$ 19,668**

Highland County Joint Township Hospital District

Consolidated Statement of Cash Flows of General Fund

	Year Ended December 31 2002	2001 As restated
Cash Flows from Operating and Non-Operating Activities		
Cash received from patients and third-party payors	$ 36,313,610	$ 32,061,196
Cash payments to suppliers for services and goods	(14,816,865)	(11,888,779)
Cash payments to employees for services	(20,880,657)	(17,755,317)
Other operating revenue received	812,644	68,677
Net cash provided by operating and non-operating activities	1,428,732	2,485,777
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(422,306)	(3,018,706)
Principal payments on bonds	(383,129)	(269,117)
Interest paid on long-term debt	(912,857)	(833,458)
Issuance of long-term debt	737,532	1,475,000
Principal payments on capital leases	(300,170)	(76,109)
Issuance of bond financing costs/goodwill	-	(336,055)
Proceeds from sale of capital assets	64,803	3,452
Net cash used in capital and related financing activities	(1,216,127)	(3,054,993)
Cash Flows from Investing Activities		
Advances to physicians - net of forgiveness	(13,798)	(25,233)
Income received on investments	134,604	252,385
Income from other non-operating gains	35,308	60,347
Proceeds from sale of investments	285,016	537,902
Net cash provided by investing activities	441,130	825,401
Net Increase in Cash and Cash Equivalents	653,735	256,185
Cash and Cash Equivalents - Beginning of year	1,523,245	1,267,060
Cash and Cash Equivalents - End of year (Note 2)	**$ 2,176,980**	**$ 1,523,245**

Highland County Joint Township Hospital District

Consolidated Statement of Cash Flows of General Fund (Continued)

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

	Year Ended December 31 2002	restated
Cash Flows from Operating Activities and Non-Operating Gains		
Income (Loss) from operations	$ (1,602,242)	$ 29,430
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,156,502	1,859,624
Provision for bad debts	3,064,415	2,349,564
Interest considered capital financing activity	912,857	833,458
(Increase) decrease in assets:		
Patient receivables	(2,749,560)	(3,111,516)
Other receivables	333,804	(383,564)
Inventory	(36,646)	14,660
Prepaid expenses	(262,146)	(98,950)
Increase (decrease) in liabilities:		
Accounts payable	(602,477)	959,330
Accrued payroll	27,082	207,846
Accrued expenses	146,199	(26,495)
Estimated amounts due third-party payors	40,944	(147,610)
Net cash provided by operating and non-operating activities	**$ 1,428,732**	**$ 2,485,777**

Assets acquired via capital lease	**$ 591,246**	**$ -**

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 intercompany transactions and balances have been eliminated in consolidation.

Highland County Joint Township Hospital District is a 63-bed, acute care facility located in Hillsboro, Ohio, serving patients 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 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 Foundation and the Hospital.

Basis of Presentation – The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to accounting principles generally accepted in the United States of America for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

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

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.

Property and Equipment – Property, plant and equipment 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 estimated useful life of the equipment. 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 – Cost incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding using the straight-line method. Amortization expense totaled $1,722 and $1,610 in 2002 and 2001, respectively. In 2001, $26,745 of financing costs related to 1990 and 1998 bond issuances were written off. 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 and $233 in 2002 and 2001, respectively.

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 2002 and 2001. Amortization expense related to the acquisition of PFW totaled $36,000 and $15,000 in 2002 and 2001, respectively.

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

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.

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.

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.

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

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.

Donor-Restricted Funds – The Hospital has received certain restricted donations and has established restricted funds in accordance with the donors' stipulations. Investments held in the specific-purpose funds and income earned thereon are to be used for the acquisition of property and equipment. Funds expended during the year for property and equipment are recognized as transfers to the general fund balance. The principal of investments held in the endowment fund may not be expended. Funds restricted by donors for specific operating purposes are reported in other operating revenues when expended for the designated purposes.

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 2001 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 Hospital are composed of the following:

	2002		2001	
	Fair value	Amoritzed Historical Cost	Fair value	Amoritzed Historical Cost
Demand deposits and money market accounts	$ 2,176,980	$ 2,176,979	$ 1,523,245	$ 1,523,245
Common stocks	71,888	13,250	66,412	13,250
U.S. government obligations	3,187,520	3,193,161	3,517,054	3,476,165
Total	**$5,436,388**	**$5,383,390**	**$5,106,711**	**$5,012,660**

	2002		2001	
Amounts summarized by fund type:	Fair value	Amortized Historical Cost	Fair value	Amortized Historical Cost
General funds				
Cash	$ 1,962,500	$ 1,962,500	$ 1,244,027	$ 1,244,027
Assets limited as to use	2,648,233	2,590,561	2,997,987	2,965,138
Specific purpose funds	806,750	807,090	845,029	788,167
Endowment funds	18,905	23,240	19,668	15,328
	$5,436,388	**$5,383,391**	**$5,106,711**	**$5,012,660**

At December 31, 2002, the bank balance of the Hospital's demand deposits and money market accounts totaled $2,515,566. Of this balance, $251,127 was covered by federal depository insurance and $2,264,439 was collateralized with securities held in a pooled collateral account at the pledging bank.

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

Note 2 – Deposits and Investments (Continued)

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

	2002	2001
By Board, for capital improvements and employee benefits	$ 1,463,584	$ 1,772,485
Held by trustee, under Bond Indenture agreements	1,184,649	1,225,502
Total	**$ 2,648,233**	**$ 2,997,987**

Note 3 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2002	2001
Total patient accounts receivable	$ 19,755,485	16,487,340
Less allowance for:		
Uncollectible accounts	(11,346,000)	(8,573,000)
Contractual adjustments	(3,022,000)	(2,212,000)
Net patient accounts receivable	**$ 5,387,485**	**$ 5,702,340**

Note 4 – Notes and Grants Receivable

Notes and grants receivable represents 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:

	2002	2001
Notes and grants receivable	$ 875,148	$ 861,350
Less: Current portion	(408,947)	(336,229)
Long term portion	**$ 466,201**	**$ 525,121**

Note 5 – Property, Plant, and Equipment

Cost of property and equipment and depreciable lives are summarized as follows.

	2002	2001	Depreciable Life-Years
Land	$ 15,437	$ 15,437	
Land improvements	1,024,241	991,316	15-40
Buildings	10,821,016	10,735,524	40
Equipment	13,824,265	14,791,572	3-25
Equipment - capital leases	1,654,778	303,429	5
Construction in progress	261,002	267,605	
Total	27,600,739	27,104,883	
Less accumulated depreciation	(12,235,906)	(10,606,384)	
Property, plant, and equipment-net	**$ 15,364,833**	**$ 16,498,499**	

Depreciation expense totaled $2,083,220 and $1,781,036 in 2002 and 2001, respectively.

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

Approximately 57 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 new prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000.

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

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 essentially all equipment and future revenues of the Hospital.

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

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 Edith Brown Pavilion (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.

Note 7 – Long-Term Debt (Continued)

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 bond and trustee 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 2002 and 2001.

Long-term debt consists of the following:

	2002	2001
Hospital Facilities Revenue Bonds, Series 1999	$ 11,100,000	$ 11,250,000
Hospital Facilities Revenue Bonds, Series 2001	456,415	587,031
PSC Mortgage Loan	208,978	214,538
PFW Commercial Loan	432,362	529,314
Obligations under capital lease	1,187,081	158,474
Total	13,384,836	12,739,357
Less current portion	(690,009)	(463,869)
Long-term portion	**$ 12,694,827**	**$ 12,275,488**

Note 7 – Long-Term Debt (Continued)

The following is a schedule of bond and mortgage principal and future minimum lease payments as of December 31, 2002.

	Bond and Loans Payable	Lease Payable
2002	$ 400,431	$ 342,641
2003	418,260	338,463
2004	462,385	303,971
2005	284,631	300,835
2006	232,849	25,069
Thereafter	10,399,199	-
Total payments	**$ 12,197,755**	1,310,979
Less amount representing interest		(123,898)
Net minus lease payments		**$ 1,187,081**

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

	2002	2001
Cost of equipment under capital lease	$ 1,654,778	$ 303,429
Less accumulated amortization	175,469	114,681
Net carrying amount	**$ 1,479,309**	**$ 188,748**

Note 8 – Net Patient Service Revenue

Net patient service revenue consists of the following.

	2002	2001
Revenue:		
Inpatient services		
Routine services	$ 6,524,006	$ 6,351,146
Ancilliary services	14,565,804	13,405,123
Outpatient services	39,742,912	33,777,354
Total patient revenue	60,832,722	53,533,623
Revenue deductions		
Provision for contractual allowances	20,130,748	16,935,898
Provision for charity care	1,115,951	726,822
Total revenue deductions	21,246,699	17,662,720
Total net patient service revenue	**$ 39,586,023**	**$ 35,870,903**

Note 9 – Employee Benefits (Defined Benefit Pension Plan)

Plan Description – The Hospital contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Ohio Public Employees Retirement System. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees. OPERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing 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 – Plan members are required to contribute 8.50 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The rate was 13.55 percent for 2002. The contribution requirement of plan members and the Hospital is established and may be amended by the OPERS Board of Trustees. The Hospital's contribution to OPERS for the years ended December 31, 2002, 2001, and 2000, were $1,759,865, $1,663,046, and $1,030,736, respectively. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records.

Note 9 – Employee Benefits (Defined Benefit Pension Plan) (Continued)

Post-Retirement Benefits – The Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with 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 funding of post-retirement benefits. The 2002 and 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 and 4.3 percent was the portion that was used to fund health care during 2002 and 2001, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2002 and 2001 was $649,324 and $527,684, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

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

The number of active contributing participants during 2001 was 402,041. As of December 31, 2001, the actuarial value of the Retirement System's net assets available for OPEB was $11.6 billion. The actuarially-accrued liability and the unfunded actuarial-accrued liability based on the actuarial cost method used, were $16.4 and $4.8 billion, respectively.

Note 10 – Risk Management

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

The Hospital is insured against medical malpractice claims under a claim-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 Hospital 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 Hospital has an umbrella policy with an additional $5,000,000 of coverage.

Note 10 – Risk Management (Continued)

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 Hospital 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 Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

Note 11 – 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 suit is 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. At this time, the Hospital continues to seek settlement with the architect, contractors, and manufacturer of the cladding. No estimate can be made of the time or the amount, if any, of ultimate recovery. The amount of the contract with these parties that remains unpaid has been accrued as of December 31, 2002.

Note 12 - Prior Period Adjustments

The accompanying financial statements for 2001 have been restated to recognize one transaction made in 2001. In 2001, PFW commenced operations. The results of these operations shouldhave been consolidated with the Hospital's financial statements. The effect of the restatement was to decrease consolidated net income for 2001 of $379,530 by $82,203.

Note 13 - New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* Under the provisions of this GASB standard, which becomes effective for the Hospital's year ending December 31, 2003, the Hospital will use business type reporting activity (BTA). BTA reporting will require the Facility to present management's discussion and analysis (MD&A) of financial results, a statement of net assets or a balance sheet, a statement of revenue, expenses and changes in net assets, a statement of cash flows, notes to the financial statements, and other required supplementary information. The required basic financial statements described above will be prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial information is not required for BTA reporting.

Financial reporting under GASB 34 will require reporting fund balance as net assets, changing certain financial statement disclosure formats including the property and equipment and long-term debt disclosures, and including the MD&A. Management has not yet determined the effect of the implementation of this statement on the Hospital's financial statements.

Note 14 – Contingency

In November 2002, the Hospital received notice and demand for funds from a third-party payer that performed an analysis on the Hospital's billed charges to them from 1999 through 2001 under the payment arrangements between the two parties in the agreement in effect for this time period. The findings claimed the Hospital had exceeded the maximum charge increase allowable under their agreement during 1999 and 2000 and had therefore been overpaid. The Hospital believes it was in compliance with their agreement and has no liability. The Hospital has obtained legal counsel to vigorously defend its position. As a result of this dispute, it is not known whether there is any potential monetary liability at this time nor can an estimate of an amount be made. Accordingly, no liability has been recorded.

Additional Information

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

We have audited the consolidated financial statements of Highland County Joint Township Hospital District for the year ended December 31, 2002. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

March 21, 2003

Highland County Joint Township Hospital District

Consolidating Schedule of Balance Sheet Accounts
December 31, 2002

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminations	Total
General Funds - Assets							
Current Assets							
Cash and cash equivalents	$1,801,779	$1,127	$117,958	$14,848	$26,788	$ -	$1,962,500
Assets limited as to use, current portion	654,435	-	-	-	-	-	654,435
Patient accounts receivable, net	4,819,872	-	446,403	-	121,210	-	5,387,485
Intercompany receivable	419,528	-	-	5,425	-	(424,953)	-
Inventories	343,329	-	-	-	-	-	343,329
Prepaid expenses and other current assets	457,558	-	69,834	-	12,280	-	539,672
Accrued interest receivable	21,431	-	-	-	-	-	21,431
Notes and grants receivable, current portion	408,947	-	-	-	-	-	408,947
Other receivables	73,643	-	8,334	-	-	-	81,977
Total current assets	9,000,522	1,127	642,529	20,273	160,278	(424,953)	9,399,776
Assets Limited as to Use							
Under debt agreement	1,184,649	-	-	-	-	-	1,184,649
By Board for employee benefits	161,373	-	-	-	-	-	161,373
By Board for capital improvements	1,302,211	-	-	-	-	-	1,302,211
Total assets limited as to use	2,648,233	-	-	-	-	-	2,648,233
Less amounts to meet current obligations	(654,435)	-	-	-	-	-	(654,435)
Assets limited to use, noncurrent portion	1,993,798	-	-	-	-	-	1,993,798
Property, Plant and Equipment, Net	14,664,134	-	676,947	-	23,752	-	15,364,833
Other Assets							
Notes and grants receivable, net of current portion	466,201	-	-	-	-	-	466,201
Intangible assets	-	-	70,000	-	309,000	-	379,000
Unamortized financing costs, net	130,137	-	-	-	2,007	-	132,144
Other investments	100,000	84,433	-	-	-	(184,433)	-
Total other assets	696,338	84,433	70,000	-	311,007	(184,433)	977,345
Total assets	**$ 26,354,792**	**$ 85,560**	**$ 1,389,476**	**$ 20,273**	**$ 495,037**	**$ (609,386)**	**$ 27,735,752**
Donor-Restriced Funds - Specific Purpose Funds							
Investments	806,750	-	-	-	-	-	806,750
Accrued interest receivable	4,079	-	-	-	-	-	4,079
Total specific purpose funds	**$ 810,829**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 810,829**
Endowment Funds - Investments	**$ 18,905**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 18,905**

Highland County Joint Township Hospital District

Consolidating Schedule of Balance Sheet Accounts (Continued)
December 31, 2002

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminations	Total
				General Funds			
Liabilities and Fund Balances							
Current Liabilities							
Current portion of long-term debt	$578,361	$ -	$ 6,117	$ -	$ 105,531	$ -	$690,009
Accounts payable - trade	1,421,883	-	133,296	-	30,120	308	1,585,607
Intercompany payable	-	-	419,528	-	-	(419,528)	-
Accounts payable - construction	76,074	-	-	-	-	-	76,074
Accrued expenses - employee compensation	1,328,697	-	45,275	-	57,123	-	1,431,095
Accrued expenses - other	497,728	-	38,463	-	34,455	-	570,646
Estimated amounts due third-party payors	123,019	-	-	-	-	-	123,019
Total current liabilities	4,025,762	-	642,679	-	227,229	(419,220)	4,476,450
Long-Term Debt, Net							
Current portion (Note 5)	12,165,135	-	202,861	-	326,831	-	12,694,827
Fund balance, general funds	10,163,895	85,560	543,936	20,273	(59,023)	(190,166)	10,564,475
Total liabilities and fund balances	**$ 26,354,792**	**$ 85,560**	**$ 1,389,476**	**$ 20,273**	**$ 495,037**	**$ (609,386)**	**$ 27,735,752**
				Donor-Restricted Funds			
Specific-Purpose Funds - Fund Balance	**$ 810,829**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 810,829**
Endowment Funds - Fund Balance	**$ 18,905**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 18,905**

Highland County Joint Township Hospital District

Consolidating Schedule of Revenue and Expenses of General Fund
December 31, 2002

	Hospital	HDH Foundation	PSC	HJTD Foundation	PFW	Eliminating	Total
Net Patient Service Revenue	$36,686,695	$ -	$ 1,575,985	$ -	$ 1,323,343	$ -	$39,586,023
Other Operating Revenue	459,229	-	495	48,191	337	(29,412)	478,840
Total revenue	37,145,924	-	1,576,480	48,191	1,323,680	(29,412)	40,064,863
Operating Expenses							
Salaries and wages	13,077,266	-	1,633,838	-	1,152,549	-	15,863,653
Employee benefits	4,532,379	-	311,589	-	200,118	-	5,044,086
Supplies	4,531,766	-	77,090	-	54,599	-	4,663,455
Purchased services	4,331,927	-	177,972	-	13,413	-	4,523,312
Physician fees	2,273,164	-	317,666	-	-	-	2,590,830
Bad debt expense	2,708,934	-	282,968	-	72,513	-	3,064,415
Depreciation	1,962,614	-	146,690	-	47,198	-	2,156,502
Professional fees	563,797	-	-	-	-	-	563,797
Utilities	653,149	-	68,918	-	40,474	-	762,541
Interest	860,041	-	13,433	-	39,383	-	912,857
Insurance	373,037	-	12,088	-	9,296	-	394,421
Other	342,695	-	512,806	48,987	252,160	(29,412)	1,127,236
Total operating expenses	36,210,769	-	3,555,058	48,987	1,881,703	(29,412)	41,667,105
Income (Loss) from Operations	935,155	-	(1,978,578)	(796)	(558,023)	-	(1,602,242)
Non-Operating Gains							
Investment income	131,247	-	-	-	-	-	131,247
Gain on disposal of assets	3,452	-	-	-	-	-	3,452
Other non-operating gains	-	-	25,787	319	9,202	-	35,308
Total non-operating gains	134,699	-	25,787	319	9,202	-	170,007
Revenue in Excess of Expenses (Expenses in Excess of Revenue)	1,069,854	-	(1,952,791)	(477)	(548,821)	-	(1,432,235)
Transfer from(to) Affiliates	(2,250,000)	-	1,750,000	-	500,000	-	-
Revenue and Gains in Excess of Expenses (Expenses in Excess of Revenues and Gains)	**$ (1,180,146)**	**$ -**	**$ (202,791)**	**$ (477)**	**$ (48,821)**	**$ -**	**$ (1,432,235)**

Highland County Joint Township Hospital District

Consolidating Schedule of Cash Flow of General Fund
December 31, 2002

	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	33,733,257	-	1,259,927	-	1,320,426		36,313,610
Cash payments to suppliers for services and goods	(13,520,720)	-	(948,314)	(48,987)	(328,256)	29,412	(14,816,865)
Cash payments to employees for services	(17,572,243)	-	(1,958,974)	-	(1,349,440)		(20,880,657)
Other operating revenue received	760,642	-	32,543	48,191	680	(29,412)	812,644
Net cash provided by (used in) operating and non-operating activities	3,400,936	-	(1,614,818)	(796)	(356,590)		1,428,732
Cash Flows from Capital and Related Financing Activities							
Acquisition and construction of capital assets	(329,440)	-	(92,866)	-	-	-	(422,306)
Principal payments on bonds and notes	(280,617)	-	(5,560)	-	(96,952)	-	(383,129)
Interest paid on long-term debt	(860,041)	-	(13,433)	-	(39,383)	-	(912,857)
Issuance of long-term debt	737,532	-	-	-	-	-	737,532
Principal payments on capital leases	(300,170)	-	-	-	-	-	(300,170)
Proceeds from sale of capital assets	64,803	-	-	-	-	-	64,803
Net cash used in capital and related financing activities	(967,933)	-	(111,859)	-	(136,335)	-	(1,216,127)
Cash Flows from Investing Activities							
Advances to physicians - net of forgiveness	(13,798)	-	-	-	-	-	(13,798)
Income received on investments	134,604	-	-	-	-	-	134,604
Income from other non-operating gains	-	-	25,787	319	9,202	-	35,308
Transfer to(from) affiliates	(2,250,000)	-	1,750,000	-	500,000	-	-
Proceeds from sale of investments	285,016	-	-	-	-	-	285,016
Net cash provided by (used in) investing activities	(1,844,178)	-	1,775,787	319	509,202	-	441,130
Net Increase in Cash and Cash Equivalents	588,825	-	49,110	(477)	16,277	-	653,735
Cash and Cash Equivalents - Beginning of year	1,427,434	1,127	68,848	15,325	10,511	-	1,523,245
Cash and Cash Equivalents - End of year (Note 2)	**$ 2,016,259**	**$ 1,127**	**$ 117,958**	**$ 14,848**	**$ 26,788**	**$ -**	**$ 2,176,980**

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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, 2002, and have issued our report thereon dated March 21, 2003. 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*.

Condition – During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital published notice in local newspapers stating their financial report for 2001 was available for public inspection at the office of the chief fiscal officer.

Criteria – During out testing of Ohio Compliance Supplement, Chapter 7, Part 2, Section A: General, (7-5 compliance requirement) we noted the above condition. This compliance section relates to Ohio Revised Code section 117.38.

Recommendation –Hospital management should publish notice in the appropriate local newspapers that their financial report is available for public inspection at the office of the chief fiscal officer and maintain evidence of such notice(s).

Condition - During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital filed its written investment policy with the Auditor of State. The Hospital holds certain investments that require the Hospital to file the investment policy with the Auditor of State. However, we noted that the Hospital maintains investments in authorized types allowed under the Ohio Revised Code.

Criteria – During our testing of Ohio Compliance Supplement, Chapter 5, Section A: Subdivisions Other Than Counties, (5-1(b) compliance requirement), we noted the above condition. This compliance section relates to Ohio Revised Code Sections 135.14 and 133.03(A)(1).

Recommendation - Management should file a copy of their written investment policy with the Auditor of State.

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 21, 2003

Auditor of State
Betty Montgomery

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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 15, 2003