

**MARK MILFORD HICKSVILLE
JOINT TOWNSHIP HOSPITAL DISTRICT**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001**



**Auditor of State
Betty Montgomery**

Board of Trustees
Mark Milford Hicksville Joint Township Hospital District
208 North Columbus
Hicksville, OH 43526-1299

We have reviewed the Independent Auditor's Report of the Mark Milford Hicksville Joint Township Hospital District, Defiance County, prepared by Rea & Associates, Inc., 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 Mark Milford Hicksville Joint Township Hospital District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 9, 2003

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

May 5, 2003

To the Board of Trustees
Mark Milford Hicksville Joint Township Hospital District
Hicksville, Ohio

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of Mark Milford Hicksville Joint Township Hospital District as of December 31, 2002 and 2001 and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Mark Milford Hicksville Joint Township Hospital District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District as of December 31, 2002 and 2001, and the results of its operations, changes in fund balances, and its 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 5, 2003 on our consideration of Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting and our tests of its compliance with certain provisions of laws and 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.

Rea & Associates, Inc.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**BALANCE SHEETS-UNRESTRICTED FUNDS
AS OF DECEMBER 31, 2002 AND 2001**

ASSETS

	<u>2002</u>	<u>2001</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,322,403	\$ 1,842,627
Net patient receivables	1,245,769	1,432,318
Due from Medicare	417,423	0
Current portion of miscellaneous receivable	28,511	51,079
Supplies inventory	91,087	66,175
Prepaid expenses	57,766	65,647
Assets limited as to use	115,523	155,910
Total current assets	<u>3,278,482</u>	<u>3,613,756</u>
 Assets limited as to use:		
Internally designated	2,287,194	2,411,429
Less amount required to meet current obligations	<u>(115,523)</u>	<u>(155,910)</u>
	2,171,671	2,255,519
 Property and equipment, net of depreciation	3,729,429	3,947,988
Investment in joint venture	0	110,509
Miscellaneous receivables, net of current portion	74,209	88,646
Note receivable	<u>102,077</u>	<u>0</u>
 TOTAL ASSETS	<u>\$ 9,355,868</u>	<u>\$ 10,016,418</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:		
Current portion of long-term debt and leases	\$ 129,027	\$ 164,972
Accounts payable	569,295	500,024
Due to Medicare	0	802,374
Accrued payroll	212,976	170,512
Compensated absences	218,155	209,758
Total current liabilities	<u>1,129,453</u>	<u>1,847,640</u>
 Long-term debt and leases, less current portion	678,974	924,771
 FUND BALANCE:		
Unrestricted	<u>7,547,441</u>	<u>7,244,007</u>
Total fund balance	<u>7,547,441</u>	<u>7,244,007</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 9,355,868</u>	<u>\$ 10,016,418</u>

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**STATEMENTS OF OPERATIONS - UNRESTRICTED FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
REVENUE:		
Net patient service revenue	\$ 9,690,971	\$ 8,258,435
OPERATING EXPENSES:		
Salaries and wages	3,425,308	3,086,885
Employee benefits	1,146,918	912,217
Physician services	734,540	547,678
Purchased services	1,095,383	906,286
Supply expense	590,447	510,406
Maintenance and repair	179,679	176,320
Utilities	161,482	155,139
Insurance	73,181	83,654
Miscellaneous	153,539	83,860
Interest	58,462	64,043
Provision for bad debts	381,121	383,240
Depreciation and amortization	606,424	530,184
Physician office	<u>881,461</u>	<u>906,913</u>
Total operating expenses	<u>9,487,945</u>	<u>8,346,825</u>
Operating gain (loss)	203,026	(88,390)
NON-OPERATING REVENUES (EXPENSES):		
Earnings on investments	151,377	194,784
Change in fair value of investments	(58,800)	(8,400)
Contributions	13,403	66,383
Revenue from investment in joint venture	(1,382)	38,956
Other (expense) revenue	<u>(4,190)</u>	<u>4,299</u>
Total non-operating revenues	<u>100,408</u>	<u>296,022</u>
Excess of revenues over expenses	<u><u>\$ 303,434</u></u>	<u><u>\$ 207,632</u></u>

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
FUND BALANCE, January 1	\$ 7,244,007	\$ 7,036,375
Excess of revenues over expenses	<u>303,434</u>	<u>207,632</u>
FUND BALANCE, December 31	<u><u>\$ 7,547,441</u></u>	<u><u>\$ 7,244,007</u></u>

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**STATEMENTS OF CASH FLOWS-UNRESTRICTED FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payers	\$ 9,497,102	\$ 8,284,214
Cash paid to suppliers for services and goods	(4,884,334)	(2,772,487)
Cash payments to employees for services	(4,572,226)	(3,999,102)
Interest paid	(58,462)	(64,043)
Net cash (used) provided by operating activities	(17,920)	1,448,582
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on line of credit	0	(50,000)
Principal payments on capital leases	(83,281)	(50,967)
Payments on notes and loans	(198,461)	(105,780)
Acquisitions and construction of capital assets	(534,723)	(647,967)
Interest paid on capital related debt and capital leases	(19,609)	(23,069)
Net cash used in capital and related financing activities	(836,074)	(877,783)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment on liquidation of investment	109,128	0
Interest on investments	151,377	194,782
Other nonoperating income	7,831	109,638
Net cash provided by investing activities	268,336	304,420
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(585,658)	875,219
CASH AND CASH EQUIVALENTS, Beginning of year	3,612,455	2,737,236
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 3,026,797</u>	<u>\$ 3,612,455</u>
CASH AND CASH EQUIVALENTS INCLUDE THE FOLLOWING:		
Cash and equivalents	\$ 1,322,403	\$ 1,842,627
Assets limited as to use cash and cash equivalents:		
Funds available for future construction and equipment	1,704,394	1,769,828
Total cash and cash equivalents	<u>\$ 3,026,797</u>	<u>\$ 3,612,455</u>
A reconciliation of operating income (loss) to net cash flows provided by operating activities is as follows:		
Operating income (loss)	\$ 203,026	\$ (88,390)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	606,424	530,184
Provision for bad debts	145,332	51,544
Interest expense	58,462	64,043
Changes in assets and liabilities:		
(Increase) Decrease in patient accounts receivable	186,549	169,993
(Increase) Decrease in Due from Medicare	(417,423)	0
Decrease (Increase) in miscellaneous receivable	37,005	(20,741)
Increase in notes receivable	(102,077)	0
Increase in inventories	(24,912)	(3,048)
Decrease (Increase) in prepaid items	7,881	(38,724)
(Decrease) Increase in accounts payable	33,326	(26,695)
(Decrease) Increase in Due to Medicare	(802,374)	802,374
Increase in accrued expenses	50,861	8,042
Net cash (used) provided by operating activities	<u>\$ (17,920)</u>	<u>\$ 1,448,582</u>

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Mark Milford Hicksville Joint Township Hospital District, Defiance County, (the Hospital) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by law. The Mark Milford Hicksville Joint Township Hospital District is a Hospital District created under provisions of Section 513.07 of the Ohio Revised Code. The Hospital operates under the direction of a nine-member board consisting of the township trustees of Mark Milford and Hicksville Townships. The Hospital is responsible for establishing, constructing, and maintaining a joint township district hospital or other hospital facilities for the residents of the contiguous townships of Mark, Milford, and Hicksville.

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 (Health Care Organizations) published by the American Institute of Certified Public Accountants. In accordance with hospital industry accounting practices, the financial statements include unrestricted funds.

The Hospital's net assets are considered to be unrestricted.

Use of Estimates - The preparation of 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards - Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Proprietary fund accounting - The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Cash equivalents - Cash equivalents include all highly liquid investments purchased from original maturities of six months or less, excluding arrangements under trust agreements.

Investments are carried at fair value. Gains and losses on investments, both realized and unrealized, are included in income.

Interest and dividends on investments are included in nonoperating income when earned.

Patient Accounts Receivable and Revenue - Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories- Inventories are stated at the lower of cost or market value determined by the first-in, first-out method.

Assets Limited as to Use - Assets limited as to use consist of invested funds designated by the Board of Trustees for future capital improvements, funds invested in accordance with agreements with a third-party, and funds held by trustees under indenture agreements (see Note 6).

Property and Equipment - Property and equipment are recorded at cost, or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Charity Care - The Hospital maintains a policy whereby care is provided to patients who meet certain criteria 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.

2. DEPOSITS AND INVESTMENTS

The classification of cash and cash equivalents, assets whose use is limited and investments on the financial statements differs from criteria set forth in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements". A reconciliation between the general fund classifications of cash and cash equivalents, assets whose use is limited and investments on the financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Cash and</u> <u>Cash</u> <u>Equivalents</u>	<u>Assets Whose</u> <u>Use Is</u> <u>Limited</u>	<u>Cash and</u> <u>Cash</u> <u>Equivalents</u>	<u>Assets Whose</u> <u>Use Is</u> <u>Limited</u>
Financial statements	\$1,322,403	\$2,141,194	\$ 1,842,627	\$2,265,428
Investments	0	(436,800)	0	(495,600)
Cash on hand	<u>(1,391)</u>	<u>0</u>	<u>(1,359)</u>	<u>0</u>
GASB Statement No. 3 deposits	<u>\$1,321,012</u>	<u>\$1,704,394</u>	<u>\$ 1,841,268</u>	<u>\$1,769,828</u>

The Hospital may deposit funds not needed for immediate expenses in interest-bearing or non-interest-bearing accounts or in United States government obligations.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

2. DEPOSITS AND INVESTMENTS (continued)

Deposits - At December 31, 2002 and 2001, the carrying amount of the Hospital's book deposits were \$3,025,415 and \$3,611,096 as compared to bank balances of \$3,292,725 and \$3,248,162. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. As of December 31, 2002 and 2001 bank balances of \$300,000 and \$288,269, respectively were covered by Federal insurance programs and \$2,992,725 and \$2,959,893 are collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments - The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the Hospital or its agent in the Hospital's name. Risk Categories 2 and 3 include investments which are neither insured or registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Hospital's name.

	<u>2002</u>					<u>2001</u>				
	Category			Reported Amount	Fair Value	Category			Reported Amount	Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>			<u>1</u>	<u>2</u>	<u>3</u>		
Common stock	\$ 0	\$436,800	\$ 0	\$436,800	\$436,800	\$ 0	\$495,600	\$ 0	\$495,600	\$495,600
Total investments	<u>\$ 0</u>	<u>\$436,800</u>	<u>\$ 0</u>	<u>\$436,800</u>	<u>\$436,800</u>	<u>\$ 0</u>	<u>\$495,600</u>	<u>\$ 0</u>	<u>\$495,600</u>	<u>\$495,600</u>

Common stock with a fair market value at its donation date of \$248,000 and market value of \$436,800 and \$495,600, respectively as of December 31, 2002 and 2001 is not readily traded on a quoted market; therefore, the year-end market value is determined by valuation.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Total patient accounts receivable	\$ 1,537,397	\$ 1,954,500
Less allowances for uncollectible accounts	<u>(291,628)</u>	<u>(522,182)</u>
Net patient receivables	<u>\$ 1,245,769</u>	<u>\$ 1,432,318</u>

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare*. Inpatient and outpatient services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

3. PATIENT ACCOUNTS RECEIVABLE (continued)

- *Medicaid.* Inpatient acute care services rendered to Medicaid 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. Outpatient services rendered to Medicaid program beneficiaries are paid based on a predetermined fee schedule for each service.

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 is a discount from established charges.

4. MISCELLANEOUS RECEIVABLE

Miscellaneous receivable represent loans under various loan arrangements. The loans are to be repaid in varying monthly installments including interest at 7.0%. A summary of the amounts outstanding is as follows:

	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Gross notes and loans receivable	\$ 102,720	\$ 139,725
Less: Current Portion	<u>(28,511)</u>	<u>(51,079)</u>
Long term portion	<u>\$ 74,209</u>	<u>\$ 88,646</u>

5. PHYSICIAN RECRUITMENT AGREEMENT AND NOTE RECEIVABLE

During 2002 the Hospital entered into an agreement with a physician to guarantee certain net practice income levels. The amounts advanced to the physician accrue interest at minimum applicable federal rate with portions eligible for forgiveness at the completion of the income guarantee portion of the contract. The notes are collateralized by the physician's equipment.

The amount due to the Hospital from the physician recruitment agreement is recorded in the financial statements as a notes receivable.

6. ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use is set forth in the following table.

	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Internally designated for future capital improvements:		
Cash and cash equivalents	\$ 1,704,394	\$ 1,769,829
Investments in common stock	436,800	495,600
Miscellaneous assets	<u>146,000</u>	<u>146,000</u>
Total assets limited as to use	<u>\$ 2,287,194</u>	<u>\$ 2,411,429</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

6. ASSETS LIMITED AS TO USE (continued)

Assets limited as to use - current portion	\$ 115,523	\$ 155,910
Assets limited as to use - long term portion	<u>2,171,671</u>	<u>2,255,519</u>
Total assets limited as to use	<u>\$ 2,287,194</u>	<u>\$ 2,411,429</u>

7. INVESTMENTS

The Hospital's investments are held by the Hospital or its agent in the Hospital's name.

The cost and approximate fair value of investments are as follows:

Assets limited as to use:

	<u>2002</u>			
	<u>Cost</u>	<u>Fair Value January 1, 2002</u>	<u>Fair Value December 31, 2002</u>	<u>Change in Fair Value</u>
Common Stock:				
Empire Banc Stock	<u>\$ 248,000</u>	<u>\$ 495,600</u>	<u>\$ 436,800</u>	<u>\$ (58,800)</u>
	<u>2001</u>			
	<u>Cost</u>	<u>Fair Value January 1, 2001</u>	<u>Fair Value December 31, 2001</u>	<u>Change in Fair Value</u>
Common Stock:				
Empire Banc Stock	<u>\$ 248,000</u>	<u>\$ 504,000</u>	<u>\$ 495,600</u>	<u>\$ (8,400)</u>

The Empire Banc Stock collateralizes the long-term debt discussed in Note 9.

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>	<u>Depreciable Lives-Years</u>
Assets Held by Hospital:			
Land	\$ 17,500	\$ 17,500	0
Land and land improvements	248,677	248,677	0 - 20
Building and fixed equipment	3,808,324	3,698,735	5 - 20
Furniture and fixtures	5,458,392	5,195,368	5 - 20
Capital leases	396,473	396,473	5 - 10
Rehabilitation center	898,169	898,169	5 - 20
Contractual equipment	13,903	13,903	5 - 20
Construction in progress	<u>100,219</u>	<u>81,446</u>	
Total cost	10,941,657	10,550,271	
Less accumulated depreciation	<u>(7,212,228)</u>	<u>(6,602,283)</u>	
Property and equipment - net	<u>\$ 3,729,429</u>	<u>\$ 3,947,988</u>	

Depreciation and amortization totaled \$606,424 in 2002 and \$530,184 in 2001.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

9. LONG-TERM DEBT AND LEASES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Note payable to the Hicksville Bank, December 14, 1999, due in monthly installments of principal plus interest at 4.85%, collateralized by 16,800 shares of Empire Banc Stock	\$ 681,722	\$ 724,145
Note payable to the Hicksville Bank, June 21, 2000, due in monthly installments of principal plus interest at 5.7%, collateralized by Hospital equipment	0	160,223
Obligations under capital lease	<u>126,279</u>	<u>205,375</u>
	808,001	1,089,743
Less: current portion	<u>(129,027)</u>	<u>(164,972)</u>
Long term portion	<u>\$ 678,974</u>	<u>\$ 924,771</u>

The Hospital has entered into various non-cancelable lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 4.0% to 5.1%. They expire at various times through 2004 and are collateralized by the equipment.

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cost of equipment under capital lease	\$ 396,473	\$ 396,473
Accumulated amortization	<u>(337,257)</u>	<u>(243,139)</u>
Net carrying amount	<u>\$ 59,216</u>	<u>\$ 153,334</u>

Minimum payments on these obligations to maturity as of December 31, 2002 are as follows:

	<u>Long-Term Debt</u>	<u>Capital Leases</u>	<u>Total</u>
2003	\$ 75,513	\$ 89,791	\$ 165,304
2004	75,513	41,151	116,664
2005	75,513	0	75,513
2006	75,513	0	75,513
2006	75,513	0	75,513
Thereafter	<u>521,264</u>	<u>0</u>	<u>521,264</u>
Subtotal	898,829	130,942	1,029,771
Less amount representing interest	<u>(217,107)</u>	<u>(4,663)</u>	<u>(221,770)</u>
Total	<u>\$ 681,722</u>	<u>\$ 126,279</u>	<u>\$ 808,001</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

9. LONG-TERM DEBT AND LEASES (continued)

The Hospital's long-term debt and capital leases are stated at the historical amount which approximates the fair value at December 31, 2002 and 2001. The current rates and terms offered to the Hospital are comparable to the weighted averaged interest rates and terms of the current outstanding long-term debt and capital leases.

10. LINE OF CREDIT

The Hospital has a line of credit with a bank in the amount of \$350,000. The line carries a 4.90% rate of interest and requires monthly interest payments. As of December 31, 2002 and 2001 the Hospital had no balance borrowed against the line. The loan is secured by investments of the Hospital.

11. CHARITY CARE

The Hospital provides uncompensated care to indigent patients. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy amount to approximately \$99,116 and \$51,544 in 2002 and 2001, respectively.

12. PENSION PLANS

Public Employees Retirement System

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43251-4642 or by calling 614-222-6705 or 1-800-222-7377.

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the Hospital is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were approximately \$563,850, \$523,509, and \$361,219.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

13. POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Public Employees Retirement System of Ohio (“System”), the System provides postretirement 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 service recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 11 – Retirement Commitments, the employer contribution rate to the System was 13.55% of covered payroll. Of covered payroll, 5.0% was the portion that was used to fund health care in 2002, the latest information available.

The Other Post-Employment Benefits (OPEB) is a standardized disclosure measure of the present value of OPEB adjusted for the effects of payroll increases and health care premium increases. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess the System’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due. The System does not make separate measurements of assets and OPEB for individual employers.

As of December 31, 2001, the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

14. SELF-INSURED HEALTH BENEFITS

The Hospital is self-insured, subject to certain stop-loss coverage, for its employees’ health benefits. The Hospital accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history. At December 31, 2002, the estimated amount of these liabilities, included in the Hospital’s other accrued expenses, was \$33,726. This liability is the Hospital’s best estimate based on available data. Changes in the reported balances of claims liabilities for 2002 and 2001 resulted from the following:

<u>Year</u>	<u>January 1,</u>	<u>Changes in</u>	<u>Claim</u>	<u>December 31,</u>
		<u>Estimates</u>	<u>Payments</u>	
2001	\$ 73,850	\$ 169,730	\$ 203,580	\$ 40,000
2002	\$ 40,000	\$ 159,408	\$ 233,134	\$ 33,726

15. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$52,392 for 2002 and \$27,524 for 2001. Advertising expenses are included as operating expenses in the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

16. MEDICAL MALPRACTICE CLAIMS

The Hospital has purchased occurrence-based insurance to protect itself against losses from medical malpractice claims. The policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits of \$3,000,000 per individual claims and \$5,000,000 in the annual aggregate.

17. RELATED ORGANIZATIONS

Community Memorial Hospital – The operations of the Community Memorial Hospital (component unit) are controlled by the Board of Hospital Governors under the authority of Section 513.16. The oversight authority of the Hospital consists of six members, one elector from each township and three electors-at-large from the Hospital District, one of whom is required to be a doctor of medicine, two are appointed by the Hospital District. The Hospital District serves as the appropriating authority and can also levy taxes for the Board of Hospital Governors. The operations of the Community Memorial Hospital are accounted for as a blended component unit.

InSight Health Services Corporation – Pursuant to an agreement authorized by state statutes, the Community Memorial Hospital joined Community Hospitals of Williams County, Inc. and Wood County Hospital, Inc. to establish and provide diagnostic imaging services to hospitals on a mobile shared service basis. The chief executive officer of each partner, or his designee, serves as a member of the Governing Board of the joint venture. All the assets, property, income, revenue, and earnings of the joint venture shall be held, used, managed, devoted, expended, and applied at the discretion and judgement of the Governing Board. The Board of Hospital Governors' share of equity in the joint venture is disclosed as an investment in the component unit's financial statements. Financial information for the joint venture is presented in Note 18.

Management believes the financial statements included in this report represent all of the funds of the Hospital District over which the Board has the ability to exercise direct operating control.

18. JOINT VENTURE

On April 20, 1994, the Hospital District entered into a general partnership with a 7.7% interest in four county MRI services. The joint venture is accounted for using the equity method and is shown as an *Investment in joint venture* on the balance sheet. During 2002, the Hospital District withdrew from this arrangement.

19. COMMITMENTS

The Hospital is involved in various pending claims and lawsuits. In the opinion of the Hospital's management, after consultation with legal counsel, the potential for loss on the claims and lawsuits will not materially effect the Hospital's financial position.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

20. RECLASSIFICATIONS

Certain items in the December 31, 2001 financial statements have been reclassified to facilitate a comparison to the December 31, 2002 financial statements. These reclassifications did not impact changes in net assets or total assets.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

May 5, 2003

To the Board of Trustees
Mark Milford Hicksville Joint Township Hospital District
Hicksville, Ohio

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Mark Milford Hicksville Joint Township Hospital District, as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 5, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Mark Milford Hicksville Joint Township Hospital District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mark Milford Hicksville Joint Township Hospital 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Mark Milford Hicksville Joint Township Hospital District in a separate letter dated May 5, 2003.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

DEFIANCE 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 31, 2003**