

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT AND SUBSIDIARIES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005



Mary Taylor, CPA
Auditor of State

Board of Trustees
Mark Milford Hicksville Joint Township Hospital District
208 N. Columbus Street
Hicksville, Ohio 43526

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 3, 2007

This Page is Intentionally Left Blank.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

TABLE OF CONTENTS DECEMBER 31, 2006 AND 2005

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited).....	i-v
Financial Statements	
Combined Balance Sheets.....	3
Combined Statements of Revenues, Expenses and Changes in Net Assets	5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	7
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.....	21

This Page is Intentionally Left Blank.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiaries (the Organization), doing business as Community Memorial Hospital, (the Hospital), Community Memorial Hospital Foundation, Inc. (the Foundation) and Community Memorial Hospital Auxiliary (the Auxiliary) financial performance provides an overall review of the Organization's financial activities. This management discussion and analysis includes the blended component units, Community Memorial Hospital Foundation, Inc. and Community Memorial Hospital Auxiliary. The intent of this discussion and analysis is to provide further information on the Organization's financial performance as a whole; readers should also review the notes to the basic combined financial statements and combined financial statements to enhance their understanding of the Organization's financial performance.

Financial Highlights

- In 2006, total assets increased \$1,948,332 over 2005 levels. Net accounts receivable increased \$457,361. Net days revenue in accounts receivable was 70 days at December 31, 2006, compared to 63 days at December 31, 2005. The most significant change in assets relates to capital assets as a result of a Hospital expansion project.
- Total liabilities increased \$1,164,161 which is related to current liabilities. Long-term liabilities were unchanged as principal payments on the \$12,600,000 of debt do not begin until 2008.
- Net cash provided by operating activities was approximately \$217,000 in 2006 compared to \$944,000 in 2005. The change is primarily due to an increase in days in accounts receivable.

Overview of the Financial Statements

This annual report consists of the combined financial statements and notes to those statements. These statements are organized to present the Organization as a whole.

Community Memorial Hospital (the Hospital) is organized as a Joint Township Hospital District under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation.

While the Joint Township Hospital District is empowered with the approval of the electorate to levy property taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no tax revenues for its operations.

The Board of Governors, appointed by the Joint Township Board of Trustees, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide health care services to the citizens of the contiguous townships of Mark, Milford and Hicksville.

The financial statements include the accounts and transactions of the Community Memorial Hospital and Community Memorial Hospital Foundation, Inc. and Community Memorial Hospital Auxiliary, separate not-for-profit entities organized to support the operations of the Hospital.

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND
SUBSIDIARIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Combined Balance Sheets, Combined Statements of Revenue, Expenses and Changes in Net Assets and Cash Flows, provide an indication of the Organization's financial health. The Combined Balance Sheet includes the assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted because of loan covenants or other purposes. The Combined Statements of Revenue, Expenses and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Combined Statement of Cash Flows reports the sources and uses of cash during the year.

Financial Analysis of the Organization

The net assets increased from \$8,415,454 in 2005 to \$9,199,625 in 2006. Table 1 provides a summary of the Organization's balance sheet for 2006 compared to 2005.

Table 1
Net Assets

	2006	2005
Assets		
Current assets	\$ 3,697,737	\$ 3,749,720
Assets whose use is limited, net of current portion	4,955,500	13,340,586
Capital assets	15,880,789	5,541,645
Other	289,545	243,288
Total assets	24,823,571	22,875,239
Liabilities		
Current liabilities	3,023,946	1,859,785
Long-term	12,600,000	12,600,000
Total liabilities	15,623,946	14,459,785
Net assets		
Restricted by donors for specific uses	84,658	-
Invested in capital assets, net of related debt	3,280,789	3,936,059
Unrestricted	5,834,178	4,479,395
Total net assets	\$ 9,199,625	\$ 8,415,454

Capital Assets

Capital assets increased from \$5,541,645 in 2005 to \$15,880,789 in 2006. The increase relates to \$11,148,247 in capital additions, offset by \$807,562 in depreciation expense and a loss on disposal of capital assets of \$1,541.

Debt

At December 31, 2006, the Organization had \$12,600,000 of debt outstanding as detailed in footnote 7. The Hospital issued debt in 2005 related to its expansion project.

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND
SUBSIDIARIES**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2006 compared to 2005.

Table 2
Revenues and Expenses

	2006	2005
Operating revenue		
Net patient service revenue	\$ 12,441,402	\$ 11,045,596
Operating expenses		
Salaries and wages	5,131,004	4,759,945
Purchased services	1,227,411	1,168,398
Employee benefits	1,580,038	1,495,410
Physician offices	817,614	591,491
Physician services	979,469	863,359
Depreciation and amortization	807,562	654,947
Supplies	851,120	721,354
Maintenance and repairs	272,546	250,375
Utilities	239,601	188,857
Miscellaneous	136,751	202,925
Insurance	203,615	185,870
Total operating expenses	12,246,731	11,082,931
Operating income (loss)	194,671	(37,335)
Non-operating revenue (expenses)		
Investment and other income, net	426,953	144,731
Changes in unrealized gains and losses	(29,962)	(61,239)
Interest expense	(65,435)	(51,953)
Total non-operating revenues (expenses)	331,556	31,539
Change in net assets	\$ 526,227	\$ (5,796)

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Patient Service Revenue

Compared to 2005, net patient service revenue increased \$1,395,806 or 13%.

Gross patient service revenue increased approximately \$2,704,000 or 19%. Inpatient revenue increased approximately \$971,000 during 2006 while outpatient revenue increased approximately \$1,733,000, consistent with the industry trend of shifting healthcare services to an outpatient basis.

Net revenue increased 13% during 2006, expenses increased 11%. The Hospital had 130 full-time equivalents in 2006 representing an increase of nine from 2005. Wage increases continued to put pressure on the Hospital in 2006.

Total patient days generally increased in 2006. Declines in the medical unit were offset by increases in the other units as shown below:

Table 3

Unit	2006	2005
	Patient Days	Patient Days
Medical	1,015	1,127
Surgical	51	24
Pediatrics	30	39
Swing Bed	866	736
Maternity	210	161
Nursery	162	131
Total	2,334	2,218

Deductions from Revenue

Contractual service adjustments, expressed as a percentage of gross revenues, were 28% in 2006, compared to 25% in 2005.

Charity care for 2006 increased to \$740,614 from \$324,956 in 2005. The number of uninsured and underinsured continues to grow in the State of Ohio. The State of Ohio developed a program in the late 1980's designed to help hospitals address the increasing number of low income, special need patients. The program, named the State of Ohio Care Assurance Program, is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of dollars is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

Total operating expenses in 2006 exceeded 2005 levels by \$1,163,800 or 11%.

The largest increases in operating expenses in 2006 over 2005 level are reflected in salaries and benefits.

Non-operating Revenues (Expenses)

Non-operating revenues consist primarily of investment related returns, interest expense and Foundation memorials and capital campaign revenues.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2007 Hospital operating budget at their November 2006 meeting. The budget was developed after a review of key volume indicators and trends seen at other hospitals in Northwest Ohio as well as trends for the Hospital.

The budget provides for an income from operations of approximately 3%.

Contacting the Mark Milford Hicksville Joint Hospital District Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Organization's finances. If you have any questions about this report or need additional information, contact the Hospital's Chief Financial Officer at 208 N. Columbus Street, Hicksville, Ohio 43526.



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Mark Milford Hicksville Joint Township Hospital District and subsidiaries (the Organization), a component unit of Defiance County, Ohio, as of December 31, 2006 and 2005, and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization'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 audits 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 combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined 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 Mark Milford Hicksville Joint Township Hospital District and subsidiaries as of December 31, 2006 and 2005, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2007 on our consideration of Mark Milford Hicksville Joint Township Hospital District and subsidiaries' 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 Auditing Standards* and should be considered in assessing the results of our audit.

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

Blue & Co., LLC

May 29, 2007

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

COMBINED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 440,949	\$ 402,975
Investments	253,132	963,171
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$890,000 in 2006 and \$506,000 in 2005	2,372,961	1,915,600
Estimated third-party settlements	185,000	-
Other receivables, current portion	55,178	90,111
Unconditional promises to give, current portion	26,021	-
Supplies Inventory	150,999	104,210
Prepaid expenses	110,902	171,081
Assets limited as to use - current portion	102,595	102,572
Total current assets	<u>3,697,737</u>	<u>3,749,720</u>
Assets limited as to use		
Internally designated	2,547,151	2,448,744
Trustee held	2,510,944	10,994,414
Less amount required to meet current obligations	<u>(102,595)</u>	<u>(102,572)</u>
	4,955,500	13,340,586
Capital assets, net	15,880,789	5,541,645
Unconditional promises to give, long term	38,137	-
Other	251,408	243,288
	<u>16,170,334</u>	<u>5,784,933</u>
 Total assets	 <u>\$ 24,823,571</u>	 <u>\$ 22,875,239</u>

See accompanying notes to combined financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

COMBINED BALANCE SHEETS DECEMBER 31, 2006 AND 2005

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
Current liabilities		
Line of credit	\$ 350,000	\$ -
Accounts payable	1,858,318	1,034,711
Accrued expenses	474,599	378,158
Estimated third-party settlements	-	103,608
Compensated absences	341,029	343,308
Total current liabilities	<u>3,023,946</u>	<u>1,859,785</u>
Long-term debt	<u>12,600,000</u>	<u>12,600,000</u>
Total liabilities	15,623,946	14,459,785
Net assets		
Restricted by donors for specific uses	84,658	-
Invested in capital assets, net of related debt	3,280,789	3,936,059
Unrestricted	5,834,178	4,479,395
Total net assets	<u>9,199,625</u>	<u>8,415,454</u>
Total liabilities and net assets	<u>\$ 24,823,571</u>	<u>\$ 22,875,239</u>

See accompanying notes to combined financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

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

	2006	2005
Operating revenue		
Net patient service revenue	\$ 12,441,402	\$ 11,045,596
Operating expenses		
Salaries and wages	5,131,004	4,759,945
Employee benefits	1,580,038	1,495,410
Physician services	979,469	863,359
Purchased services	1,227,411	1,168,398
Supplies	851,120	721,354
Maintenance and repairs	272,546	250,375
Utilities	239,601	188,857
Insurance	203,615	185,870
Miscellaneous	136,751	202,925
Depreciation and amortization	807,562	654,947
Physician offices	817,614	591,491
Total operating expenses	12,246,731	11,082,931
Operating income (loss)	194,671	(37,335)
Non-operating revenues (expenses)		
Investment and other income, net	426,953	144,731
Interest expense	(65,435)	(51,953)
Change in unrealized gains and losses	(29,962)	(61,239)
Total non-operating revenues (expenses)	331,556	31,539
Change in net assets	526,227	(5,796)
Net assets, beginning of year, as previously reported	8,415,454	8,421,250
Effect of change in reporting entity, beginning net assets of component units	257,944	
Net assets, beginning of year, as restated	8,673,398	8,421,250
Net assets, end of year	\$ 9,199,625	\$ 8,415,454

See accompanying notes to combined financial statements.

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND
SUBSIDIARIES**

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

	2006	2005
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 11,695,433	\$ 11,022,415
Cash paid to suppliers for services and goods	(4,861,790)	(3,893,697)
Cash payments to employees for services	(6,616,880)	(6,184,601)
Net cash from operating activities	<u>216,763</u>	<u>944,117</u>
Cash flows from capital and related financing activities		
Borrowings on line of credit	350,000	(592,847)
Principal payments on long-term debt	-	(592,847)
Issuance of long-term debt	-	12,600,000
Acquisitions and construction of capital assets, net	(10,149,233)	(2,089,296)
Interest paid on capital related debt and capital leases	(65,435)	(51,953)
Net cash from capital and related financing activities	<u>(9,864,668)</u>	<u>9,865,904</u>
Cash flows from investing activities		
Other changes in investments and assets whose use is limited, net	10,221,708	(9,426,443)
Interest on investments	285,302	106,062
Other changes	305,485	38,669
Net cash from investing activities	<u>10,812,495</u>	<u>(9,281,712)</u>
Net change in cash and cash equivalents	<u>1,164,590</u>	<u>1,528,309</u>
Cash and cash equivalents, beginning of year	<u>2,542,416</u>	<u>1,014,107</u>
Cash and cash equivalents, end of year	<u>\$ 3,707,006</u>	<u>\$ 2,542,416</u>
Cash and cash equivalents include the following		
Cash and equivalents	\$ 440,949	\$ 402,975
Assets limited as to use - cash and cash equivalents		
Funds available for future construction and equipment	3,266,057	2,139,441
Total cash and cash equivalents	<u>\$ 3,707,006</u>	<u>\$ 2,542,416</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income (loss)	\$ 194,671	\$ (37,335)
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	807,562	654,947
Loss on disposal of capital assets	1,541	-
Provision for bad debts	790,481	484,436
Changes in operating assets and liabilities	-	-
Patient accounts receivable	(1,247,842)	(505,164)
Estimated third-party settlements	(288,608)	(2,453)
Other receivables	26,813	(229,360)
Supplies inventory	(46,789)	(11,024)
Prepaid expenses	60,179	(48,836)
Accounts payable	(175,407)	568,152
Accrued expenses	94,162	70,754
Net cash from operating activities	<u>\$ 216,763</u>	<u>\$ 944,117</u>
Supplemental disclosure of cash flow information		
Building purchases included in accounts payable at December 31	\$ 999,014	\$ -
Unconditional promises to give made by donors as of December 31	\$ 64,158	\$ -

See accompanying notes to combined financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. NATURE OF OPERATIONS 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.

Blended Component Units

In order to comply with the provisions of Statements No.14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, issued by the Governmental Accounting Standards Board, the accompanying combined financial statements include the accounts of Community Memorial Hospital Foundation, Inc. (the Foundation) and Community Memorial Hospital Auxiliary (the Auxiliary) as blended component units. The Foundation and the Auxiliary exist solely to support the operations of the Hospital. All significant inter-company transactions and balances have been eliminated in consolidation.

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

Enterprise fund accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, 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, that do not conflict with or contradict GASB pronouncements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

Cash Equivalents

Cash equivalents include all highly liquid investments purchased with original maturities of six months or less, excluding arrangements under trust agreements. Cash paid for interest was \$65,435, net of amount capitalized of \$383,411, for the year ended December 31, 2006. Cash paid for interest was \$51,953 for the year ended December 31, 2005.

Capital Assets

Capital assets are reported on the basis of cost, except for donated items, which are recorded at fair value at the date of the donation. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment.

Net Assets

Net assets of the Organization are classified in three 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. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. Restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Organization. Restricted assets at December 31, 2006 are designated for capital improvements.

Operating Revenues and Expenses

The Organization's combined statement of revenue, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Non-operating items consist of investment income, unrealized gains/losses on investments, donations and interest expense. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Restricted Resources

It is the Hospital's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted resources are used only after unrestricted resources have been depleted.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

Compensated Absences

The Organization's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. The estimated amount of compensated absences payable as termination payments is reported as a current liability in both 2006 and 2005.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Assets Limited as to Use

Investments and assets limited as to use are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care 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. 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, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$741,000 and \$325,000 in 2006 and 2005, respectively.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

2. CHANGE IN REPORTING ENTITY

In May 2002, the GASB issued Statement No. 39 *Determining Whether Certain Organizations Are Component Units*, which established criteria to determine if organizations that are legally separate, tax exempt entities should be presented as component units if significant. Application of this standard was required for the period beginning after June 15, 2003. In 2004 and 2005, the Foundation and Auxiliary were not considered significant. However, in 2006, the Foundation and Auxiliary are considered significant and, therefore, are presented as blended component units. The beginning net assets of the Organization have been restated to include the Foundation and Auxiliary beginning net assets of \$171,899 and \$86,045, respectively; the total beginning net assets of \$257,944 has been added to the Organization's beginning net assets in the 2006 statement of revenue, expenses and changes in net assets.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. 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. A summary of the basis of reimbursement with major third-party payors follows:

Medicare The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at the approximate cost plus 1% of providing those services. 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.

Medicaid Medicaid services are reimbursed at prospectively determined rates except for capital. 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 Medicaid fiscal intermediary.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

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.

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2003 and with Medicaid through 2001. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2006 and 2005, which Hospital management believes will approximate final settlements after audit by the respective agencies.

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	<u>2006</u>	<u>2005</u>
Patient accounts receivable	\$ 4,084,550	\$ 3,063,105
Allowance for uncollectible accounts	(890,026)	(506,201)
Allowance for contractual adjustments	(821,563)	(641,304)
Net patient accounts receivable	<u>\$ 2,372,961</u>	<u>\$ 1,915,600</u>

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The mix of receivables as of December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	21%	23%
Medicaid	8%	12%
Blue Cross	11%	12%
Other third-party payors	25%	25%
Self-pay	35%	28%
	<u>100%</u>	<u>100%</u>

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

5. PROMISES TO GIVE

Unconditional promises to give as of December 31, 2006 are as follows:

Receivable in less than one year	\$ 26,021
Receivable in one to five years	<u>55,606</u>
Total unconditional promises to give	81,627
Less discounts to present value	(9,307)
Less allowance for uncollectible promises	<u>(8,162)</u>
Net unconditional promises to give	<u><u>\$ 64,158</u></u>

6. DEPOSITS AND INVESTMENTS

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

	2006		2005	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Demand deposits and money market accounts	\$ 3,266,057	\$ 3,266,057	\$ 2,139,441	\$ 2,139,441
Certificates of deposit	471,000	471,000	2,671,000	2,671,000
U.S. Government and agencies	1,338,148	1,316,799	-	-
Collateralized mortgage obligations	-	-	9,259,664	9,304,113
Stock	643,440	248,000	739,200	248,000
Mutual funds	33,531	30,000	-	-
Total	<u><u>\$ 5,752,176</u></u>	<u><u>\$ 5,331,856</u></u>	<u><u>\$ 14,809,305</u></u>	<u><u>\$ 14,362,554</u></u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

Demand deposits and money market accounts of \$3,266,057 includes \$2,510,944 of restricted-use capital improvement funds held by the bond trustee.

At December 31, 2006, the financial institution balance of the Organization's demand deposits, certificates of deposit and money market accounts totaled \$4,084,371. Of this balance, \$587,983 was covered by federal depository insurance and \$756,533 was collateralized with securities held at the pledging banks. Uninsured money market accounts held with an investment company totaled \$2,739,855.

Investments in US Government and US Government Agency securities and mutual funds were uninsured and held by a respective agent of the Organization in the name of the respective Organizational entity. Investments in common stock were held by the Hospital in the Hospital's name.

Common stock with a fair value at its donation of \$248,000 and market value of \$643,440 and \$739,200, respectively at December 31, 2006 and 2005 is not readily traded on a quoted market; therefore, the year-end market value is determined by valuation.

The Organization's investments generally are reported at fair value. At December 31, 2006, the Organization had the following investments and maturities, all of which were held by a respective agent of the Organization in the name of the entity:

Moody's	S&P	Morning Star	Entity	Fair Value	Maturities in years (less than 1)	Maturities in years (1-5)	As part of Total Investments
Aaa	AAA		FNMA asset backed	\$ 475,425	N/A-1	N/A-1	23.6%
Aaa	AAA		FHLMC fixed income	199,771	199,771	-	9.9%
Aaa	AAA		FHLB fixed income	199,157	199,157	-	9.9%
Aaa	AAA		FNMA fixed income	463,795	-	463,795	23.0%
N/A-2	N/A-2		Empire Bancshares, Inc. stock	643,440	N/A-2	N/A-2	31.9%
N/A-2	N/A-2		Franklin Income mutual fund	8,688	N/A-2	N/A-2	0.4%
N/A-2	N/A-2		Putnam Voyager mutual fund	8,523	N/A-2	N/A-2	0.4%
N/A-2	N/A-2		Oppenheimer High Income mutual fund	8,266	N/A-2	N/A-2	0.4%
N/A-2	N/A-2		Oppenheimer MidCap mutual fund	8,054	N/A-2	N/A-2	0.4%
				<u>\$ 2,015,119</u>	<u>\$ 398,928</u>	<u>\$ 463,795</u>	<u>100.0%</u>

N/A-1: Mortgage backed security

N/A-2: Equity securities, rating disclosure not required, no maturity period to report

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

Interest Rate Risk. The Organization 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 Organization 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 the federal government or instrumentality; time certificate of deposits or savings or deposit accounts, including passbook accounts; certain bonds and other obligations; no load money market funds; certain commercial paper; and certain repurchase agreements.

Concentration of Credit Risk. The Organization places no limit on the amount it may invest in any one issuer. The Organization maintains its investments, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on investments.

7. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2006 and 2005:

2006	12/31/2005	Increases	Decreases	12/31/2006
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	1,299,922	11,155,809	(11,982,197)	473,534
Land and land improvements	256,042	32,917	-	288,959
Building and fixed equipment	3,947,525	10,216,878	-	14,164,403
Furniture and fixtures	5,790,218	1,724,840	(186,917)	7,328,141
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>12,482,558</u>	<u>23,130,444</u>	<u>(12,169,114)</u>	<u>23,443,888</u>
Less accumulated depreciation	(6,940,913)	(807,562)	185,376	(7,563,099)
Total property and equipment, net	<u>\$ 5,541,645</u>	<u>\$ 22,322,882</u>	<u>\$(11,983,738)</u>	<u>\$ 15,880,789</u>

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

2005	12/31/2004	Increases	Decreases	12/31/2005
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	438,198	861,724	-	1,299,922
Land and land improvements	268,127	4,165	(16,250)	256,042
Building and fixed equipment	3,920,009	27,516		3,947,525
Furniture and fixtures	5,278,709	1,195,891	(684,381)	5,790,218
Capital leases	396,473	-	(296,473)	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>11,390,366</u>	<u>2,089,296</u>	<u>(997,104)</u>	<u>12,482,558</u>
Less accumulated depreciation	<u>(7,283,070)</u>	<u>(654,947)</u>	<u>997,104</u>	<u>(6,940,913)</u>
Total property and equipment, net	<u>\$ 4,107,296</u>	<u>\$ 1,434,349</u>	<u>-</u>	<u>\$ 5,541,645</u>

8. LONG-TERM DEBT

Long term debt consists of the following:

	2006	2005
2005 County Hospital Facilities Revenue Bonds, Serial Bonds, 3.99% variable rate due December 1, 2037, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$390,000 plus interest	\$ 12,600,000	\$ 12,600,000
Less current portion	-	-
	<u>\$ 12,600,000</u>	<u>\$ 12,600,000</u>

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Series 2005 Bonds	Total
December 31, 2005	\$ 12,600,000	\$ 12,600,000
Additions	-	-
Payments	-	-
December 31, 2006	<u>\$ 12,600,000</u>	<u>\$ 12,600,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

	Note payable to bank	Series 2005 Bonds	Total
December 31, 2004	\$ 592,847	\$ -	\$ 592,847
Additions	-	12,600,000	12,600,000
Payments	592,847	-	592,847
December 31, 2005	<u>\$ -</u>	<u>\$ 12,600,000</u>	<u>\$ 12,600,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Scheduled payments on long-term debt are as follows:

Year ending	Principal payments	Interest payments	Total
2007	-	502,740	502,740
2008	95,000	502,740	597,740
2009	95,000	498,950	593,950
2010	100,000	495,159	595,159
2011	110,000	491,169	601,169
2012 - 2016	660,000	2,384,225	3,044,225
2017 - 2021	860,000	2,236,994	3,096,994
2022 - 2026	1,100,000	2,046,870	3,146,870
2027 - 2031	1,390,000	1,805,675	3,195,675
2032 - 2036	1,780,000	1,498,844	3,278,844
2037 - 2038	6,410,000	255,759	6,665,759
Total	<u>\$ 12,600,000</u>	<u>\$ 12,719,125</u>	<u>\$ 25,319,125</u>

During 2005, the Hospital obtained \$12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005, for the purpose constructing, equipping, installing and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037 with a balloon payment of \$6,410,000. The adjustable interest rate at December 31, 2006 was 3.99%. The debt is collateralized by

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

Hospital receipts, a lien on the property and a letter of credit issued by Fifth Third Bank. The letter of credit expires December 15, 2010.

9. LINE OF CREDIT

The Hospital has a \$350,000 line of credit with a bank payable on demand, subject to annual review of the financial condition of the Hospital. The line carries an 8.75% rate of interest (tied to WSJ prime rate and adjustable daily) and requires monthly interest payments. At December 31, 2006 and 2005 the Hospital had borrowings against the line of \$350,000 and \$0, respectively. The line is secured by investments of the Hospital. The Hospital has a \$650,000 line of credit with another bank maturing on May 15, 2007. There were no borrowings on this line in 2006 or 2005.

10. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System of Ohio, (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. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. 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 employee are 13.7% and 9%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2006	\$ 787,432
2005	\$ 693,306
2004	\$ 576,792

OPERS also provides post-retirement health care coverage to age and service

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

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

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2005 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804. Hospital contributions made to fund post-employment benefits approximated \$259,000, \$205,000 and \$170,000 for 2006, 2005 and 2004, respectively.

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

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

11. BLENDED COMPONENT UNITS

The combined financial statements include the Foundation and Auxiliary as blended component units. The following summarizes the financial position and activities of the Foundation and the Auxiliary as of and for the year ended December 31, 2006:

	<u>Foundation</u>	<u>Auxiliary</u>
Current assets		
Cash and cash equivalents	\$ 68,899	\$ 82,396
Investments	33,531	-
Unconditional promises to give, current portion	26,021	-
Total current assets	<u>128,451</u>	<u>82,396</u>
Non-current assets		
Unconditional promises to give, long term	38,137	-
Total assets	<u>\$ 166,588</u>	<u>\$ 82,396</u>
Net assets		
Restricted by donors for specific uses	64,158	20,500
Unrestricted	102,430	61,896
Total net assets	<u>\$ 166,588</u>	<u>\$ 82,396</u>
Income		
Memorials and capital campaign	\$ 99,119	\$ -
Auxiliary projects	-	46,388
Total income	<u>99,119</u>	<u>46,388</u>
Expenses		
Contributions to the Hospital	104,430	21,242
Other	-	28,795
Total expenses	<u>104,430</u>	<u>50,037</u>
Excess expenses over revenues	(5,311)	(3,649)
Net assets, beginning of year	<u>171,899</u>	<u>86,045</u>
Net assets, end of year	<u>\$ 166,588</u>	<u>\$ 82,396</u>

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
AND SUBSIDIARIES**

NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

12. RISK MANAGEMENT

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.

13. AFFILIATION

On July 23, 2003 the Hospital entered into an affiliation agreement with IOM Health System, LPA d/b/a Lutheran Health Network. The affiliation is for the purposes of collaboration for expanded development and integration of services to residents of the Hicksville area. The affiliation does not lead to ownership or management of either organization by the other.

14. SUBSEQUENT EVENT

In March, 2007, The Hospital secured approximately \$6,000,000 in debt through a USDA program to repay a portion of the 2005 bonds.



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240
 main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

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

We have audited the financial statements of Mark Milford Hicksville Joint Township Hospital District, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mark Milford Hicksville 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 Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mark Milford Hicksville 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 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, of the significant deficiencies described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

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 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 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*.

We noted certain matters that we reported to management of Mark Milford Hicksville Joint Township Hospital District in a separate letter dated May 29, 2007.

Mark Milford Hicksville Joint Township Hospital District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Mark Milford Hicksville 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 Board of Trustees, management, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

Blue & Co., LLC

May 29, 2007

Mark Milford Hicksville Joint Hospital District
Schedule of Findings and Responses
December 31, 2006

2006-1: Accrual of Capital Expenditures

Auditing procedures resulted in the discovery of construction costs incurred during 2006 that were not accrued at year-end. An audit adjustment was proposed to record \$999,014 of construction in process and accrued expenses. In order to ensure accurate period-end financial reporting during future construction projects, we recommend management review payment and service dates for proper cut-off recording.

Management's Response:

Policies and procedures will be revised to address accrual of period end construction costs on this and future projects.

2006:2 Contractual and Bad Debt Allowances

Auditing procedures resulted in adjustments to contractual allowances and bad debt allowances relating to patient accounts receivable. The Hospital's contractual allowance model was not updated at year-end for 2006 payment experience. We recommend that the Hospital review and update this model at least quarterly to help ensure accurate interim financial reporting.

Management's Response:

The contractual model will be reviewed and revised periodically as part of the contractual allowance and bad debt allowance monitoring.



Mary Taylor, CPA
Auditor of State

MARK MILFORD HICKSVILLE JOIN TOWNSHIP HOSPITAL

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
AUGUST 16, 2007**