

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

CPAs / ADVISORS





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, 2008 through December 31, 2008. 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, 2009

This Page is Intentionally Left Blank.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

TABLE OF CONTENTS DECEMBER 31, 2008

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited).....	i-v
Financial Statements	
Balance Sheet.....	3
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to 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 <i>Government Auditing Standards</i>	19
Schedule of Prior Audit Findings and Responses – Year Ended December 31, 2007	21
Schedule of Audit Findings and Responses – Year Ended December 31, 2008	22



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of Mark Milford Hicksville Joint Township Hospital District (the Hospital) as of December 31, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides 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, 2008, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in footnote 12 to the financial statements, the Hospital has suffered a loss from operations and did not meet certain covenants related to the bonds outstanding at December 31, 2008 (footnote 6). As a result, the debt has been classified as a current liability. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2009 on our consideration of Mark Milford Hicksville Joint Township Hospital District 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

June 5, 2009

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District (the Hospital) is to provide further information on the Hospital's financial performance as a whole. Readers should also read the notes to the basic financial statements to enhance their understanding of the Hospital's financial performance.

Financial Highlights

- The Hospital experienced a loss from operations and did not meet certain covenants related to certain debt outstanding at December 31, 2008 (footnote 6). As a result, the related debt has been classified as a current liability. These conditions, coupled with the prior year loss, raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans in regard to these matters are described in footnote 12 of the financial statements.
- Total assets decreased \$1,696,582 from \$21,588,302 at December 31, 2007 to \$19,891,720 at December 31, 2008. Net days revenue in accounts receivable improved to 56 days at December 31, 2008, down from 72 days at December 31, 2007.
- Total liabilities increased \$859,754 which relates primarily to an increase in estimated third party settlements and an increase in the interest rate swap liability.
- Net patient service revenue increased \$1,658,095, or 11.4% over 2007. Total operating expenses increased \$1,363,558 or 8.6% over 2007. There was an operating loss of \$993,087 and \$1,287,624 in 2008 and 2007, respectively.
- Net cash provided from operating activities was approximately \$ 1,993,000 in 2008 compared to net cash used by operating activities of approximately \$518,000 in 2007.

Overview of the Financial Statements

This annual report consists of the financial statements and notes to those statements. These statements are organized to present the Hospital 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.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008

The Balance Sheets, Statements of Revenue, Expenses and Changes in Net Assets and Cash Flows, provide an indication of the Hospital's financial health. The 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 Statements of Revenue, Expenses and Changes in Net Assets report the revenues and expenses during the time period indicated. The Statement of Cash Flows reports the sources and uses of cash during the year.

Financial Analysis of the Hospital

Total net assets decreased \$2,556,336 from \$6,517,816 at December 31, 2007 to \$3,961,480 at December 31, 2008. Table 1 provides a summary of the Hospital's balance sheets at December 31, 2008, 2007 and 2006.

Table 1: Net Assets

	2008	2007	2006
Assets			
Current assets	\$ 4,394,214	\$ 4,664,748	\$ 3,486,890
Assets whose use is limited, net of current portion	447,074	840,787	4,955,500
Capital assets	14,718,528	15,839,063	15,880,789
Other	331,904	243,704	251,408
Total assets	19,891,720	21,588,302	24,574,587
Liabilities			
Current liabilities	10,144,240	15,070,486	3,023,946
Long-term	5,786,000	-	12,600,000
Total liabilities	15,930,240	15,070,486	15,623,946
Net assets			
Invested in capital assets, net of related debt	2,318,528	3,239,063	3,280,789
Restricted	402,668	235,397	-
Unrestricted	1,240,284	3,043,356	5,669,852
Total net assets	\$ 3,961,480	\$ 6,517,816	\$ 8,950,641

Capital Assets

Capital assets decreased from \$15,839,063 in 2007 to \$14,718,528 in 2008. The decrease relates primarily to \$1,478,782 in depreciation expense offset by capital additions.

Debt

At December 31, 2008, the Hospital had \$12,400,000 of debt outstanding. The Hospital refunded \$6,000,000 of its series 2005 bonds in 2007. The Hospital manages a portion of its interest rate risk through a pay-fixed interest rate swap related to \$6,600,000 of its bonds. At December 31, 2008, the Hospital was not in compliance with the provisions of the bond covenants. The Hospital has not obtained a waiver of these covenants; accordingly, the Ohio Hospital Facilities Revenue Refunding Bonds have been classified within the current portion of long-term debt on the balance sheet.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008**

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2008 compared to 2007 and 2006.

Table 2:
Revenues and Expenses

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenue			
Net patient service revenue	\$ 16,227,401	\$ 14,569,306	\$ 12,441,402
Operating expenses			
Salaries and wages	6,179,889	5,762,415	5,131,004
Purchased services	1,787,951	1,583,081	1,227,411
Employee benefits	2,305,301	1,998,402	1,580,038
Physician offices	1,766,038	1,384,384	817,614
Physician services	1,076,888	1,087,136	979,469
Depreciation	1,478,782	1,652,322	807,562
Supplies	1,084,080	1,076,810	851,120
Maintenance and repairs	412,188	412,277	272,546
Utilities	552,131	464,255	239,601
Miscellaneous	266,751	190,075	136,751
Insurance	310,489	245,773	203,615
Total operating expenses	<u>17,220,488</u>	<u>15,856,930</u>	<u>12,246,731</u>
Operating income (loss)	(993,087)	(1,287,624)	194,671
Non-operating revenue (expenses)			
Investment and other income, net	190,271	556,998	435,916
Change in unrealized gains and losses	(260,400)	(521,479)	(29,962)
Interest expense	<u>(670,309)</u>	<u>(639,201)</u>	<u>(65,435)</u>
Total non-operating revenues (expenses)	<u>(740,438)</u>	<u>(603,682)</u>	<u>340,519</u>
Excess of expenses over revenues	(1,733,525)	(1,891,306)	535,190
Other changes in net assets			
Transfers to Foundation	(243,600)	-	-
Interest rate swap	<u>(579,211)</u>	<u>(541,519)</u>	<u>-</u>
Change in net assets	<u>\$ (2,556,336)</u>	<u>\$ (2,432,825)</u>	<u>\$ 535,190</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008

Net Patient Service Revenue

Net patient service revenue increased \$1,658,095 or 11.4% from \$14,569,306 in 2007 to \$16,227,401 in 2008. This increase is primarily a result of increased patient volume during 2008.

Gross patient service revenue increased \$4,008,786 or 20%. Inpatient revenue increased approximately \$1,012,239 during 2008 while outpatient revenue increased approximately \$2,996,547 consistent with the industry trend of shifting healthcare services to an outpatient basis.

Total patient days increased in 2008 as shown below in relation to 2007 and 2006:

Table 3

Unit	2008 Patient Days	2007 Patient Days	2006 Patient Days
Medical	1,567	1,242	1,015
Surgical	56	53	51
Pediatrics	43	34	30
Swing Bed	962	876	866
Maternity	247	241	210
Nursery	214	185	162
Respite	6	-	-
Total	3,095	2,631	2,334

Deductions from Revenue

Contractual service adjustments and charity care, expressed as a percentage of gross revenues, were 40% in 2008, compared to 33% in 2007.

Charity care for 2008 increased to \$1,814,195 from \$1,126,268 in 2007. 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2008

Operating Expenses

Total operating expenses in 2008 exceeded 2007 levels by \$1,363,558 representing an 8.6% increase.

The largest increases in operating expenses in 2008 over 2007 level are reflected in salaries and wages and employee benefits and physician offices.

Non-operating Revenues (Expenses)

Non-operating revenues consist primarily of investment related returns and interest expense.

Other Changes in Net Assets

Other changes in net assets consist of the change in value of an interest rate swap.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2009 Hospital operating budget at their November 2008 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 4.3%

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 Hospital'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.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEET DECEMBER 31, 2008

ASSETS

Current assets

Cash and cash equivalents	\$	967,713
Investments		179,895
Patient accounts receivable, net of allowance for doubtful accounts of \$766,495		2,499,238
Other receivables		306,065
Supplies inventory		198,456
Prepaid expenses		140,186
Assets limited as to use - current portion		102,661
Total current assets		<u>4,394,214</u>

Assets limited as to use

Internally designated		549,735
Less current		<u>(102,661)</u>
Total assets limited as to use		447,074

Capital assets, net

14,718,528

Other

Other receivables, long term		96,603
Bond Issuance cost		235,301
		<u>15,050,432</u>

Total assets \$ 19,891,720

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEET DECEMBER 31, 2008

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 728,116
Accrued expenses	871,142
Compensated absences	460,024
Estimated third party settlement	350,228
Interest rate swap	1,120,730
Current portion of long-term debt	6,614,000
Total current liabilities	<u>10,144,240</u>
Long-term debt	<u>5,786,000</u>
Total liabilities	15,930,240
Net assets	
Invested in capital assets, net of related debt	2,318,528
Restricted	402,668
Unrestricted	1,240,284
Total net assets	<u>3,961,480</u>
Total liabilities and net assets	<u><u>\$ 19,891,720</u></u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

Operating revenue	
Net patient service revenue	\$ 16,227,401
Operating expenses	
Salaries and wages	6,179,889
Employee benefits	2,305,301
Physician services	1,076,888
Purchased services	1,787,951
Supplies	1,084,080
Maintenance and repairs	412,188
Utilities	552,131
Insurance	310,489
Miscellaneous	266,751
Depreciation	1,478,782
Physician offices	1,766,038
Total operating expenses	<u>17,220,488</u>
Operating loss	(993,087)
Non-operating revenues (expenses)	
Investment and other income, net	190,271
Change in unrealized gains and losses	(260,400)
Interest expense	(670,309)
Total non-operating revenues (expenses)	<u>(740,438)</u>
Excess of expenses over revenues	(1,733,525)
Other changes in net assets	
Transfers to Foundation	(243,600)
Change in interest rate swap	(579,211)
Total other changes in net assets	<u>(822,811)</u>
Change in net assets	(2,556,336)
Net assets, beginning of year	<u>6,517,816</u>
Net assets, end of year	<u><u>\$ 3,961,480</u></u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008

Cash flows from operating activities	
Cash received from patients and third-party payors	\$ 17,523,116
Cash paid to suppliers for services and goods	(7,205,203)
Cash payments to employees for services	(8,324,830)
Net cash from operating activities	<u>1,993,083</u>
Cash flows from capital and related financing activities	
Payments on long-term debt	(394,385)
Acquisitions and construction of capital assets, net	(379,857)
Loss on disposal of capital assets	21,610
Interest paid on capital related debt and capital leases	(661,906)
Net cash from capital and related financing activities	<u>(1,414,538)</u>
Cash flows from investing activities	
Other changes in investments and assets whose use is limited, net	574,945
Interest on investments	190,271
Net cash from investing activities	<u>765,216</u>
Net change in cash and cash equivalents	1,343,761
Cash and cash equivalents, beginning of year	353,582
Cash and cash equivalents, end of year	<u>\$ 1,697,343</u>
Cash and cash equivalents include the following	
Cash and equivalents	\$ 967,713
Assets limited as to use - cash and cash equivalents	729,630
Total cash and cash equivalents	<u>\$ 1,697,343</u>
Reconciliation of operating loss to net cash flows from operating activities	
Operating loss	\$ (993,087)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	1,478,782
Bad debt	1,289,167
Changes in operating assets and liabilities	
Patient accounts receivable	(911,790)
Estimated third-party settlements	918,338
Other receivables	(144,139)
Supplies inventory	38,557
Prepaid expenses	(7,445)
Accounts payable	20,201
Accrued expenses	304,499
Net cash from operating activities	<u>\$ 1,993,083</u>
Supplemental disclosure of cash flow information	
Unconditional promises to give made by donors as of December 31	\$ 168,811
Cash paid for interest	\$ 661,906

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Hospital

The Mark Milford Hicksville Joint Township Hospital District, Defiance County, (the Hospital) was 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.

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 Hospital 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.

Cash Equivalents

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

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

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. The Hospital recognizes a capital asset when the cost of the item purchased is (1) greater than \$2,500 or a minimum useful life of 3 years (2) a group of 3 or more like items with each items costing more than \$1,500 or (3) a building or remodeling project with total costs in excess of \$10,000.

Net Assets

Net assets of the Hospital 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 Hospital. Restricted net assets are restricted to Hospital capital additions by donors.

Operating Revenues and Expenses

The Hospital's 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, 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 restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used only after restricted resources have been depleted.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

Compensated Absences

The Hospital'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 2008.

Risk Management

The Hospital 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 \$1,814,195 in 2008.

Federal Income Tax

The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Medical Center has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Medical Center evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

2. 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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organization, and preferred provider organization. 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.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

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 2006 and with Medicaid through 2002. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2008, which Hospital management believes will approximate final settlements after audit by the respective agencies.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

Patient accounts receivable	4,248,376
Allowance for uncollectible accounts	(766,495)
Allowance for contractual adjustments	(982,643)
Net patient accounts receivable	<u>\$ 2,499,238</u>

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

Medicare	23%
Medicaid	12%
Blue Cross	15%
Other third-party payors	20%
Self-pay	30%
Total	<u>100%</u>

4. DEPOSITS AND INVESTMENTS

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

	<u>Fair value</u>	<u>Cost</u>
Demand deposits and money market accounts	\$ 1,051,539	\$ 1,051,539
Certificates of deposit	645,804	645,804
Total	<u>\$ 1,697,343</u>	<u>\$ 1,697,343</u>

At December 31, 2008, the financial institution balance of the Hospital's demand deposits, certificates of deposit and money market accounts totaled \$1,546,739. Of this balance, \$945,855 was covered by federal depository insurance and \$600,884 was collateralized with securities held at the pledging banks.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

Interest Rate Risk. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk. The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by 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 Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

5. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2008:

2008	12/31/2007	Increases	Decreases	12/31/2008
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	657,420	356,432	(560,001)	453,851
Land and land improvements	295,381	22,791	-	318,172
Building and fixed equipment	15,296,503	560,635	(166,507)	15,690,631
Furniture and fixtures	7,256,834	-	-	7,256,834
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>24,694,988</u>	<u>939,858</u>	<u>(726,508)</u>	<u>24,908,338</u>
Less accumulated depreciation	<u>(8,855,925)</u>	<u>(1,478,782)</u>	<u>144,897</u>	<u>(10,189,810)</u>
Total property and equipment, net	<u>\$ 15,839,063</u>	<u>\$ (538,924)</u>	<u>\$ (581,611)</u>	<u>\$ 14,718,528</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

6. LONG-TERM DEBT

Long term debt consists of the following at December 31, 2008:

2005 County Hospital Facilities Revenue Bonds, adjustable interest rate (3.37% at December 31, 2008), due December 1, 2032, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$475,000 plus interest	\$ 6,505,000
Ohio Hospital Facilities Revenue Refunding Bonds, 4.125% fixed rate, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$105,000 to \$338,000, maturity date of December 1, 2037	5,895,000
Less current portion	<u>(6,614,000)</u>
Long-term debt	<u><u>\$ 5,786,000</u></u>

	Revenue Bonds Series 2005	Revenue Refunding 2007 Bonds	Total
December 31, 2007	\$ 6,600,000	\$ 6,000,000	\$ 12,600,000
Payments	95,000	105,000	200,000
December 31, 2008	<u>\$ 6,505,000</u>	<u>\$ 5,895,000</u>	<u>\$ 12,400,000</u>
Amounts due within one year	<u>\$ 6,505,000</u>	<u>\$ 109,000</u>	<u>\$ 6,614,000</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

Scheduled payments on long-term debt are as follows:

Year ending December 31,	Series 2005 Bonds			2007 Refunding Bonds		Total
	Principal	Interest	Interest Rate Swap, Net	Principal	Interest	
2009	\$ 6,505,000	\$ 225,073	\$ 1,120,730	\$ 109,000	\$ 243,169	\$ 8,202,972
2010	-	-	-	114,000	238,673	352,673
2011	-	-	-	118,000	233,970	351,970
2012	-	-	-	123,000	229,103	352,103
2013	-	-	-	128,000	224,029	352,029
2014-2018	-	-	-	726,000	1,036,241	1,762,241
2019-2023	-	-	-	887,000	873,840	1,760,840
2024-2028	-	-	-	1,086,000	645,098	1,731,098
2029-2033	-	-	-	1,329,000	431,846	1,760,846
2034-2037	-	-	-	1,275,000	134,104	1,409,104
Total	<u>\$ 6,505,000</u>	<u>\$ 225,073</u>	<u>\$ 1,120,730</u>	<u>\$ 5,895,000</u>	<u>\$ 4,290,073</u>	<u>\$ 18,035,876</u>

At December 31, 2008 the Hospital was not in compliance with the provisions of the bond covenants which require debt service coverage to be greater than 1.25 to 1 and net assets to be greater than \$8,000,000. The Hospital has not obtained a waiver of these covenants; accordingly, the amount relating to the Ohio Hospital Facilities Revenue Refunding Bonds has been classified as current portion of long-term debt on the balance sheet.

During 2005, the Hospital obtained \$12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005, for constructing, equipping, installing and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2032. The adjustable interest rate at December 31, 2008 was 3.37%. The debt is collateralized by 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.

During 2007, the Hospital obtained \$6,000,000 of Ohio Hospital Facilities Revenue Refunding Bonds. The bonds refunded a portion of the series 2005 bond issue. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037. The bonds bear interest at a fixed rate of 4.125% per annum.

Interest Rate Swap

Objective of the interest rate swap. As a means to lower its borrowing costs, the Hospital entered into an interest rate swap in connection with the remaining \$6,600,000 of series 2005 bonds. The intention of the swap was to effectively change the Hospital's variable interest rate on the bonds to a fixed rate of 4.46% through January 1, 2021.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

Terms. The swap agreement matures on January 1, 2021. The swap's notional amount of \$6,600,000 matches the \$6,600,000 variable rate bonds. Starting in 2008, the notional amount of the swap and the principal amount of the associated debt decline through the termination date of the swap agreement.

Fair Value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$1,120,730 as of December 31, 2008.

Credit Risk. As of December 31, 2008 the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty had a bank financial strength rating of A1 by Moody's Investors Service as of December 31, 2008.

Termination Risk. The Hospital or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated the Hospital would pay interest at the bonds' variable rate in effect. Also, if at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value.

7. LINE OF CREDIT

The Hospital had a \$650,000 line of credit with a bank payable on demand, subject to annual review of the financial condition of the Hospital. The line carried a 7.75% rate of interest (tied to WSJ prime rate and adjustable daily) and required monthly interest payments. The line of credit expired in February 2008.

8. OPERATING LEASES

The Hospital has lease agreements for certain buildings and office equipment under operating leases. The net future minimum lease payments for this lease follow:

2009	\$	417,377
2010		417,377
2011		417,377
2012		417,377
2013		557,870
		<u>\$ 2,227,378</u>

Total rental expense for operating leases, including those with terms of one month or less, for the year ended December 31, 2008, was \$401,499 and is included within other expenses on the statements of operations and changes in net assets.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

9. 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 14.0% and 10.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2008	\$ 1,057,156
2007	\$ 957,269
2006	\$ 787,432

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2008 employer contribution rates of 14.0% used to fund healthcare was 7% from January 1, 2008 through December 31, 2008. Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2007. 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 2007 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 4% for the next 7 years. In subsequent years (8 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 363,503 active contributing participants as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007 actuarial valuation was 364,076. Hospital contributions made to fund post-employment benefits approximated \$529,000, \$380,000 and \$259,000 for 2008, 2007 and 2006, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2007 was \$12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$29.8 billion and \$17.0 billion, respectively.

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

10. 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.

11. 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 Hospital by the other.

12. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital's net assets decreased \$2,556,336 in 2008. Further, the Hospital's operating expenses increased approximately \$1,364,000 in 2008; or 8.6% over 2007 while net patient service revenue increased \$1,531,383. The resulting loss from operations was approximately \$993,000 in 2008.

The Hospital occupied an expanded facility in 2007. This expansion was financed through a bond issue of \$12,600,000 which requires annual debt service payments of approximately \$656,000 beginning in 2008.

Management of the Hospital plans to return the Hospital to profitability through pursuit of increased patient revenues, evaluation of contribution margins of certain lines of business, expense reduction through renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census needs in addition to other cost containment initiatives.



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@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, 2008, and have issued our report thereon dated June 5, 2009. 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 in 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and responses (2008:1) to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 2008:1 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mark Milford Hicksville Joint Township Hospital District's financial statements are free of material misstatement, we performed tests of it 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 June 5, 2009.

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 an should not be used by anyone other than those specified parties.

Blue & Co., LLC

June 5, 2009

Mark Milford Hicksville Joint Hospital District
Schedule of Prior Audit Findings and Responses
Year Ended December 31, 2007

2007:1 Contractual Allowances – New Payors

Auditing procedures resulted in an adjustment to contractual allowances relating to patient accounts receivable. The Hospital's contractual allowance model did not contemplate a new payor in 2007. We recommend that the Hospital adjust the model for new payors to help ensure accurate interim financial reporting.

Management's Response:

This was not updated in the 2008 contractual model. The new payor was incorporated in the audit analysis of the contractual allowance model and adjusted as part of the 2008 audit.

2007:2 Monitoring Bond Covenants

The Hospital is required to maintain a debt service coverage of at least 1.25 to 1 and net assets of at least \$8,000,000. We recommend that the Hospital identify and monitor applicable covenants throughout the year to identify any compliance issues.

Management's Response:

Covenants have been identified and are being calculated and monitored as part of the financial reporting process.

Mark Milford Hicksville Joint Hospital District
Schedule of Findings and Responses
December 31, 2008

2008:1 Contractual and Bad Debt Allowances

Contractual allowances relating to a new payor arising in 2007 were not contemplated in the 2008 contractual allowance model. Also, estimated payment percentages for all payors were not updated in 2008. As a result, audit procedures resulted in significant adjustments to contractual allowances and bad debt allowances. We recommend that the Hospital review and update this model at least quarterly to help ensure accurate interim financial reporting.

Management's Response:

These allowances will be evaluated periodically throughout the year and contractual and bad debt allowances will be adjusted appropriately.



Mary Taylor, CPA
Auditor of State

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
AUGUST 13, 2009