

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP
HOSPITAL DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



Dave Yost • Auditor of State

Board of Trustees
Mark Milford Hicksville Joint Township Hospital District
208 North 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, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

July 28, 2011

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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

- Total assets and deferred outflows increased \$364,346 from \$19,633,984 at December 31, 2009 to \$19,998,330 at December 31, 2010. Net days receivable outstanding increased to 62 days at December 31, 2010, up from 52 days at December 31, 2009.
- Total liabilities increased \$551,551 which relates primarily to an increase in the interest rate swap, estimated third party settlement and accounts payable.
- Net patient service revenue increased \$776,158 or 3.9%, over 2009. Total operating expenses increased \$665,372, or 3.4%, over 2009. There was an operating gain of \$375,579 in 2010 compared to an operating gain of \$264,793 in 2009.
- Net cash provided from operating activities was approximately \$1,454,000 in 2010 and approximately \$1,354,000 in 2009.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

The analysis of the Hospital finances begins on page ii. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and related changes. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing. It provides answers to such questions as "where did cash come from?" "what was cash used for?" and "what was the change in cash balance during the reporting period?"

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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. 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.

Financial Analysis of the Hospital

As further discussed in Note 2 to the financial statements, the Hospital adopted Governmental Accounting Standards Board's Statement No. 53, *Accounting and Financial Report for Derivative Instruments*, and has retroactively restated the 2009 and 2008 amounts presented in this section as required by the new guidance. Total net assets decreased \$187,205 from \$4,567,777 at December 31, 2009 to \$4,380,572 at December 31, 2010. Table 1 provides a summary of the Hospital's balance sheets at December 31, 2010, 2009 and 2008.

Table 1: Net Assets

	2010	2009	2008
Assets			
Current assets	\$ 5,670,547	\$ 4,786,248	\$ 4,394,214
Assets whose use is limited, net of current portion	427,299	456,155	447,074
Capital assets	12,378,384	13,084,325	14,718,528
Other	623,916	518,751	331,904
Deferred outflows	898,184	788,505	1,120,730
Total assets and deferred outflows	19,998,330	19,633,984	21,012,450
Liabilities			
Current liabilities	2,862,335	2,103,702	9,023,510
Interest rate swap	898,184	788,505	1,120,730
Long-term	11,857,239	12,174,000	5,786,000
Total liabilities	15,617,758	15,066,207	15,930,240
Net assets			
Invested in capital assets, net of related debt	396,384	888,325	2,318,528
Restricted	71,205	131,335	402,668
Unrestricted	3,912,983	3,548,117	2,361,014
Total net assets	\$ 4,380,572	\$ 4,567,777	\$ 5,082,210

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010 AND 2009**

Capital Assets

Capital assets decreased from \$13,084,325 in 2009 to \$12,378,384 in 2010. The decrease relates primarily to \$1,407,824 in depreciation expense offset by capital additions of \$704,367.

Debt

At December 31, 2010, the Hospital had \$11,982,000 of debt outstanding. The Hospital manages a portion of its interest rate risk through a pay-fixed, receive-variable interest rate swap related to \$6,600,000 of its bonds.

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2010 compared to 2009 and 2008.

Table 2: Revenues and Expenses

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenue			
Net patient service revenue	\$ 20,589,946	\$ 19,813,788	\$ 16,227,401
Operating expenses			
Salaries and wages	9,185,437	8,645,452	7,738,839
Purchased services	2,425,489	2,229,698	1,856,282
Employee benefits	2,861,456	2,738,615	2,360,052
Physician services	1,055,022	1,059,179	1,076,888
Depreciation	1,407,824	1,776,083	1,478,782
Supplies	1,264,698	1,242,768	1,077,606
Maintenance and repairs	530,051	472,502	426,934
Utilities	593,443	572,584	568,278
Miscellaneous	511,978	397,343	326,158
Insurance	378,969	414,771	310,669
Total operating expenses	<u>20,214,367</u>	<u>19,548,995</u>	<u>17,220,488</u>
Operating income (loss)	375,579	264,793	(993,087)
Non-operating revenue (expenses)			
Investment and other income, net	86,308	37,200	190,271
Change in unrealized gains and losses	-	-	(260,400)
Interest expense	<u>(649,092)</u>	<u>(816,426)</u>	<u>(670,309)</u>
Total non-operating revenues (expenses)	<u>(562,784)</u>	<u>(779,226)</u>	<u>(740,438)</u>
Excess of revenue over expenses (expenses over revenue)	(187,205)	(514,433)	(1,733,525)
Other changes in net assets			
Transfers to Foundation	-	-	(243,600)
Change in net assets	<u>\$ (187,205)</u>	<u>\$ (514,433)</u>	<u>\$ (1,977,125)</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

Net Patient Service Revenue

Gross patient service revenue increased \$4,496,912 in 2010, or 14%, over 2009. Inpatient revenue increased \$2,175,339 during 2010 while outpatient revenue increased \$2,321,573. There was an overall rate increase of 3% in 2010. Also, outpatient visits increased 9% over the prior year while inpatient days decreased 1% from the prior year.

Net patient service revenue increased \$776,158, or 3.9%, from \$19,813,788 in 2009 to \$20,589,946 in 2010.

Total inpatient days decreased in 2010 as shown below in relation to 2009 and 2008:

Table 3

Unit	2010 Patient Days	2009 Patient Days	2008 Patient Days
Medical	1,335	1,472	1,567
Medical Beds	101	27	-
Surgical	71	104	56
Pediatrics	22	38	43
Swing Bed	1,035	935	962
Maternity	283	289	247
Nursery	228	241	214
Respite	-	4	6
Total	3,075	3,110	3,095

Deductions from Revenue

Contractual service adjustments and charity care, expressed as a percentage of gross revenues, were 40% in 2010, compared to 36% in 2009.

Charity care for 2010 increased to \$1,057,146 from \$992,001 in 2009. 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, 2010 AND 2009

Operating Expenses

Total operating expenses in 2010 exceeded 2009 levels by \$665,372, representing a 3.4% increase.

The largest increases in operating expenses in 2010 over 2009 level are reflected in salaries and wages, purchased services, employee benefits and miscellaneous expenses.

Non-operating Revenues (Expenses)

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

Cash Flow

Changes in cash flows are consistent with changes in operating losses and non-operating revenues and expenses discussed earlier. The Hospital had purchases of property of \$704,367 during 2010 compared to \$176,337 during 2009.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2011 Hospital operating budget at their October 2010 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%.

The Hospital demonstrated steady improvement in 2010. The net patient revenue for the year improved by 3.9% and our operating expenses increased 3.4% over 2009 giving us a 1.8% operating margin. Day's cash on hand is 35 at year end compared to 39 days at the end of 2009. Salaries and benefits as a percentage of net revenue have improved moving down towards our goal of 50% of net revenue. We are in compliance with our debt service covenant and the net asset requirements. The Hospital has a dedicated senior management team along with talented managers that are dedicated to the success of the organization.

The end of 2010 saw the completion of four years of the Hospital in the new facility. In those four years we experienced strong volume growth. Our analysis indicates a 13% compounded annual growth (adjusted patient days) since our opening. This increase is evidence that we are making a positive impact on our community - reflecting increased utilization of existing services and the development of new services as well. Actual growth has outperformed the estimated growth projections done prior to building the new facility.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

The economic outlook for the Hospital will be affected by federal and state healthcare reform, as well as the general economy of our area. The economic outlook for hospitals is uncertain. The limited range of the uncertainty reflects the increasing but undefined future role of government.

The dynamics in healthcare have never been more acute. It will require the Hospital to continue developing strategic initiatives that will guide us over the next several years and to recognize that there will be multiple demands made on us on a daily basis. To survive and thrive in the future, we need to be able to respond to changes in health care quickly by monitoring the quality and efficiency of care provided.

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.



FORTY YEARS & COUNTING

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 sheets of Mark Milford Hicksville Joint Township Hospital District (the Hospital) as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District as of December 31, 2010 and 2009, and its results of 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 June 23, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i through vi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Bene G. LLC

June 23, 2011

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEETS DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009 As restated
Current assets		
Cash and cash equivalents	\$ 1,144,079	\$ 1,172,967
Investments	240,755	202,197
Patient accounts receivable, net of allowance for doubtful accounts of \$1,294,000 and \$860,000 for 2010 and 2009, respectively	3,532,523	2,710,711
Other receivables	312,472	269,272
Supplies inventory	176,953	176,972
Prepaid expenses	157,310	123,551
Estimated third-party settlements	-	27,258
Assets limited as to use - current portion	106,455	103,320
Total current assets	<u>5,670,547</u>	<u>4,786,248</u>
Assets limited as to use		
Internally designated	533,754	559,475
Less current portion	<u>(106,455)</u>	<u>(103,320)</u>
Total assets limited as to use	427,299	456,155
Capital assets, net	12,378,384	13,084,325
Other		
Other receivables, long term	405,422	291,854
Bond issuance costs	218,494	226,897
Total other assets	<u>623,916</u>	<u>518,751</u>
Deferred outflows	898,184	788,505
Total assets and deferred outflows	<u>\$ 19,998,330</u>	<u>\$ 19,633,984</u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009 As restated
Current liabilities		
Accounts payable	\$ 822,487	\$ 644,619
Accrued expenses	927,281	794,529
Compensated absences	438,450	450,554
Estimated third party settlement	446,117	-
Current portion of long-term debt	228,000	214,000
Total current liabilities	<u>2,862,335</u>	<u>2,103,702</u>
Long-term debt	11,754,000	11,982,000
Interest rate swap	898,184	788,505
Other long term liabilities	<u>103,239</u>	<u>192,000</u>
Total liabilities	15,617,758	15,066,207
Net assets		
Invested in capital assets, net of related debt	396,384	888,325
Restricted	71,205	131,335
Unrestricted	3,912,983	3,548,117
Total net assets	<u>4,380,572</u>	<u>4,567,777</u>
Total liabilities and net assets	<u>\$ 19,998,330</u>	<u>\$ 19,633,984</u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009 As restated
Operating revenue		
Net patient service revenue	\$ 20,589,946	\$ 19,813,788
Operating expenses		
Salaries and wages	9,185,437	8,645,452
Employee benefits	2,861,456	2,738,615
Physician services	1,055,022	1,059,179
Purchased services	2,425,489	2,229,698
Supplies	1,264,698	1,242,768
Maintenance and repairs	530,051	472,502
Utilities	593,443	572,584
Insurance	378,969	414,771
Miscellaneous	511,978	397,343
Depreciation	1,407,824	1,776,083
Total operating expenses	20,214,367	19,548,995
Operating gain	375,579	264,793
Non-operating revenues (expenses)		
Investment and other income, net	86,308	37,200
Interest expense	(649,092)	(816,426)
Total non-operating revenues (expenses)	(562,784)	(779,226)
Excess of revenue over expenses (expenses over revenue)	(187,205)	(514,433)
Net assets, beginning of year	4,567,777	5,082,210
Net assets, end of year	\$ 4,380,572	\$ 4,567,777

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009 As restated
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 20,241,509	\$ 19,066,371
Cash paid to suppliers for services and goods	(6,772,290)	(6,434,223)
Cash payments to employees for wages and benefits	(12,015,006)	(11,278,150)
Net cash from operating activities	1,454,213	1,353,998
Cash flows from capital and related financing activities		
Payments on long-term debt	(214,000)	(204,000)
Acquisitions and construction of capital assets, net	(704,367)	(176,337)
Loss on disposal of capital assets	2,484	34,457
Interest paid on capital related debt and capital leases	(640,689)	(808,022)
Net cash from capital and related financing activities	(1,556,572)	(1,153,902)
Cash flows from investing activities		
Interest on investments	86,308	37,200
Net cash from investing activities	86,308	37,200
Net change in cash and cash equivalents	(16,051)	237,296
Cash and cash equivalents, beginning of year	1,934,639	1,697,343
Cash and cash equivalents, end of year	\$ 1,918,588	\$ 1,934,639
Cash and cash equivalents include the following		
Cash and equivalents	\$ 1,144,079	\$ 1,172,967
Assets limited as to use and investments - cash and cash equivalents	774,509	761,672
Total cash and cash equivalents	\$ 1,918,588	\$ 1,934,639
Reconciliation of operating gains to net cash flows from operating activities		
Operating gain	\$ 375,579	\$ 264,793
Adjustments to reconcile operating gains to net cash from operating activities		
Depreciation	1,407,824	1,776,083
Bad debt	1,219,987	1,114,880
Changes in operating assets and liabilities		
Patient accounts receivable	(2,041,799)	(1,326,353)
Estimated third-party settlements	473,375	(377,486)
Other receivables	(156,768)	(158,458)
Supplies inventory	19	21,484
Prepaid expenses	(33,759)	16,635
Accounts payable	177,868	(83,497)
Accrued expenses	120,648	(86,083)
Other long term liabilities	(88,761)	192,000
Net cash from operating activities	\$ 1,454,213	\$ 1,353,998
Supplemental disclosure of non cash activities		
Change in Unconditional promises to give made by donors	\$ -	\$ 271,333
Interest rate swap and deferred outflows	\$ 898,184	\$ 788,505

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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 Hospital 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 Hospital 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 three months or less.

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, 2010 AND 2009

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. 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. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

Bond Issuance Costs

Bond discounts and financing costs are amortized over the life of the bonds using the outstanding bonds method. Unamortized debt issuance costs are included in other assets on the balance sheet.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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 and natural disasters; and medical malpractice. 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, which consist of medical and surgical supplies, 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 \$1,057,146 and \$992,001 in 2010 and 2009, respectively.

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, 2010 AND 2009

Physician Recruitment Agreements and Physician Advances Receivable

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

The Hospital recorded a liability of approximately \$254,000 and \$336,000 in accrued expenses and other long term liabilities at December 31, 2010 and 2009, respectively, for the estimated obligation to the Hospital (current and long-term) under these arrangements with an offsetting asset recorded in other receivables within the accompanying balance sheet.

Reclassifications

Certain amounts have been reclassified in the 2009 financial statements to conform to the current year presentation. See Note 2 for changes in net assets due to a change in accounting principle.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is June 23, 2011.

2. CHANGE IN ACCOUNTING PRINCIPLE

The Hospital has adopted the requirements of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments. The Hospital is a party to an interest rate swap agreement which is a derivative instrument. The new guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge. For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also is reported on the balance sheet.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the balance sheet with the offsetting entry posted to investment income.

The Hospital's interest rate swap agreement was determined to be an effective hedge at end of both 2010 and 2009. As required by the new guidance, the Hospital retroactively restated the accompanying financial statements to implement hedge accounting relative to its interest rate swap agreement. The effects of the change on accounting principle on the accompanying financial statements are detailed below:

Unrestricted net assets at January 1, 2009, as previously presented	\$ 3,961,480
Cumulative effect of change in accounting principle	1,120,730
Unrestricted net assets as of January 1, 2009, as restated	<u>\$ 5,082,210</u>
Change in unrestricted net assets for 2009, as previously presented	\$ (182,208)
Current year effect of change in accounting principle	(332,225)
Change in unrestricted net assets for 2009, as restated	<u>\$ (514,433)</u>

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 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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 2008 and with Medicaid through 2004. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2010, 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:

	2010	2009
Patient accounts receivable	\$ 6,726,919	\$ 4,769,864
Allowance for uncollectible accounts	(1,293,803)	(859,961)
Allowance for contractual adjustments	(1,900,593)	(1,199,192)
Net patient accounts receivable	<u>\$ 3,532,523</u>	<u>\$ 2,710,711</u>

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

	2010		2009	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	23%	31%	22%	30%
Medicaid	11%	3%	11%	4%
Blue Cross	11%	18%	11%	17%
Other third-party payors	25%	43%	26%	44%
Self-pay	30%	5%	30%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

5. 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	\$ 1,012,296	\$ 1,012,296
Certificates of deposit	906,292	906,292
Total	<u>\$ 1,918,588</u>	<u>\$ 1,918,588</u>

At December 31, 2010, the financial institution balance of the Hospital's demand deposits, certificates of deposit and money market accounts totaled \$2,065,120. Of this balance, \$1,213,992 was covered by federal depository insurance and \$851,128 was collateralized with securities held at the pledging banks.

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.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset and liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 898,184</u>	<u>\$ -</u>	<u>\$ 898,184</u>

Liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 788,505</u>	<u>\$ -</u>	<u>\$ 788,505</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

7. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2010:

2010	12/31/2009	Increases	Decreases	12/31/2010
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	71,313	747,728	(498,227)	320,814
Land and land improvements	318,172	11,174	-	329,346
Building and fixed equipment	15,690,631	443,692	(259,668)	15,874,655
Furniture and fixtures	7,617,078	-	-	7,617,078
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
Total capital assets	24,886,044	1,202,594	(757,895)	25,330,743
Less accumulated depreciation				
Land and land improvements	(265,125)	(9,314)	-	(274,439)
Building and fixed equipment	(10,049,061)	(1,314,862)	257,184	(11,106,739)
Family health center	(996,019)	(49,070)	-	(1,045,089)
Rehabilitation center	(477,611)	(34,578)	-	(512,189)
Contractual equipment	(13,903)	-	-	(13,903)
Total accumulated depreciation	(11,801,719)	(1,407,824)	257,184	(12,952,359)
Total capital assets, net	\$ 13,084,325	\$ (205,230)	\$ (500,711)	\$ 12,378,384

Capital assets consist of the following at December 31, 2009:

2009	12/31/2008	Increases	Decreases	12/31/2009
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	453,852	176,337	(558,876)	71,313
Land and land improvements	318,172	-	-	318,172
Building and fixed equipment	15,690,631	-	-	15,690,631
Furniture and fixtures	7,256,834	558,876	(198,632)	7,617,078
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
Total capital assets	24,908,339	735,213	(757,508)	24,886,044
Less accumulated depreciation				
Land and land improvements	(254,693)	(10,432)	-	(265,125)
Building and fixed equipment	(8,535,984)	(1,677,252)	164,175	(10,049,061)
Family health center	(946,949)	(49,070)	-	(996,019)
Rehabilitation center	(438,282)	(39,329)	-	(477,611)
Contractual equipment	(13,903)	-	-	(13,903)
Total accumulated depreciation	(10,189,811)	(1,776,083)	164,175	(11,801,719)
Total capital assets, net	\$ 14,718,528	\$ (1,040,870)	\$ (593,333)	\$ 13,084,325

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

8. LONG-TERM DEBT

Long term debt consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (0.78% at December 31, 2010), due December 1, 2032, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$475,000 plus interest	\$ 6,310,000	\$ 6,410,000
Ohio Hospital Facilities Revenue Refunding (2007 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	5,672,000	5,786,000
Less current portion	<u>(228,000)</u>	<u>(214,000)</u>
Long-term debt	<u>\$ 11,754,000</u>	<u>\$ 11,982,000</u>

	Revenue Bonds Series 2005	Revenue Refunding 2007 Bonds	Total
December 31, 2009	\$ 6,410,000	\$ 5,786,000	\$ 12,196,000
Payments	100,000	114,000	214,000
December 31, 2010	<u>\$ 6,310,000</u>	<u>\$ 5,672,000</u>	<u>\$ 11,982,000</u>
Amounts due within one year	<u>\$ 110,000</u>	<u>\$ 118,000</u>	<u>\$ 228,000</u>

	Revenue Bonds Series 2005	Revenue Refunding 2007 Bonds	Total
December 31, 2008	\$ 6,505,000	\$ 5,895,000	\$ 12,400,000
Payments	95,000	109,000	204,000
December 31, 2009	<u>\$ 6,410,000</u>	<u>\$ 5,786,000</u>	<u>\$ 12,196,000</u>
Amounts due within one year	<u>\$ 100,000</u>	<u>\$ 114,000</u>	<u>\$ 214,000</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Scheduled payments on long-term debt are as follows:

Using rates as of December 31, 2010, debt service requirements of the variable rate debt and net swap payments of the Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005, and assuming current interest rates remain the same for the term of the bond. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year ending December 31,	Series 2005 Bonds			2007 Refunding Bonds		Total
	Principal	Interest	Interest Rate Swap, Net	Principal	Interest	
2011	\$ 110,000	\$ 49,218	\$ 238,033	\$ 118,000	\$ 233,970	\$ 749,221
2012	115,000	48,360	233,883	123,000	229,103	749,346
2013	125,000	47,463	229,545	128,000	224,029	754,037
2014	135,000	46,488	222,326	134,000	218,749	756,563
2015	140,000	45,435	214,957	139,000	213,221	752,613
2016-2020	815,000	255,099	948,671	786,000	975,151	3,779,921
2021-2025	1,050,000	552,992	161,178	962,000	799,138	3,525,308
2026-2030	1,325,000	375,621	-	1,178,000	583,647	3,462,268
2031-2035	1,695,000	99,486	-	1,441,000	319,936	3,555,422
2036-2037	800,000	33,396	-	663,000	41,292	1,537,688
Total	<u>\$ 6,310,000</u>	<u>\$ 1,553,558</u>	<u>\$ 2,248,593</u>	<u>\$ 5,672,000</u>	<u>\$ 3,838,236</u>	<u>\$ 19,622,387</u>

During 2005, the Hospital obtained \$12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005 (2005 Bonds), 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, 2010 was 0.78%.

The debt is collateralized by Hospital receipts and a letter of credit issued by Fifth Third Bank. The letter of credit expires December 15, 2013. In the event of a draw on the letter of credit, due to troubled remarketing of the bonds by the bank, the Hospital has until the expiration date of the letter of credit to reimburse the bank. The Hospital is required to meet certain financial covenants including debt service and tangible net worth requirements. The Hospital believes it is in compliance with these covenants. Effective June 1, 2011, the Hospital's tangible net worth requirement was replaced by a day's cash on hand requirement.

During 2007, the Hospital obtained \$6,000,000 of Ohio Hospital Facilities Revenue Refunding Bonds (2007 Bonds). The bonds refunded a portion of the series 2005 bond issue. The bonds are payable in varying annual installments beginning December 2008 and mature December 2037. The bonds bear interest at an annual fixed rate of 4.125%. The carrying amount reported on the balance sheet for long-term debt is approximately fair value.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Hospital has one interest rate swap agreement in effect at December 31, 2010 for the \$6,600,000 Hospital Facilities Revenue Bonds.

Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bonds, the Hospital entered into an interest rate swap in connection with its Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005 (Series 2005). The intention of the swap agreement was to effectively change the Organization's variable interest rate on the bonds to a fixed rate of 4.460%.

Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2010 are as follows. The notional amount of the swap matches the principal amount of the associated debt and decline with the principle amortization on the bonds.

<u>Associated Bond Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>	<u>Counterparty Credit Rating</u>
Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005	\$ 6,310,000	1/1/2008	4.460%	0.78%	\$ (898,184)	January 1, 2021	A3, BBB+, A-

As of December 31, 2010, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreement should the variable rate on the bonds increase. The variable rate on the swap is the USD-BMA Municipal Swap Index and the variable rate on the Series 2005 bonds is Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly.

The counterparty carries a guarantee by an entity ("counterparty guarantor") rated A3 by Moody's Investors Service (Moody's), BBB+ by Standard and Poor's (S&P), and A- by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

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 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.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Basis Risk

The swaps expose the Hospital to basis risk should the relationship between SIFMA and USD-BMA Municipal Swap Index converges changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 4.46% and the synthetic rate of 4.85% for 2010. As of December 31, 2010, the variable rates on the Hospital's Series 2005 bonds were .78% whereas the variable rates from the counterparty was .30%

The Hospital has determined the swap to be an effective hedge. Accordingly, the fair value of the swap has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheet while the swap remains an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

	Assets	
	2010	2009
Deferred outflows	<u>\$ 898,184</u>	<u>\$ 788,505</u>
	Liabilities	
	2010	2009
Interest rate swap	<u>\$ 898,184</u>	<u>\$ 788,505</u>

10. 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:

2011	\$ 417,377
2012	417,377
2013	557,870
	<u>\$ 1,392,624</u>

Total rental expense for operating leases, including those with terms of one month or less, for the year ended December 31, 2010 and 2009, was \$561,333 and \$510,252 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, 2010 AND 2009

11. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Payroll and related items	\$ 564,661	\$ 406,724
Self-insured benefits	157,817	207,272
Health insurance claims	<u>204,803</u>	<u>180,533</u>
Total salaries, wages and related accruals	<u>\$ 927,281</u>	<u>\$ 794,529</u>

12. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Organization's contributions, representing 100% of employer contributions, for the last three years follow:

<u>Year</u>	<u>Contribution</u>
2010	\$ 1,200,335
2009	\$ 1,121,771
2008	\$ 1,057,156

Hospital contributions made to fund post-employment benefits approximated \$436,000, \$471,000, and \$529,000 for 2010, 2009 and 2008, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

13. 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. The plan is covered by a stop-loss policy that covers claims over \$70,000 per employee per annum up to an aggregate amount of \$1,000,000. Expenses charged to operations, including an estimate of incurred but unreported claims, total \$1,290,564, and \$1,250,315 in 2010 and 2009, respectively.

14. 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.



FORTY YEARS & COUNTING

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

To the Board of Governors
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, 2010, and have issued our report thereon dated June 23, 2011. 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 the Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as 2010:1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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)

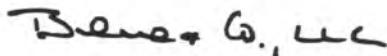
Compliance and Other Matters

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 June 23, 2011.

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 Governors, 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.



June 23, 2011

Mark Milford Hicksville Joint Hospital District
Schedule of Findings and Responses
Year Ended December 31, 2010

2010:1 Physician Income Guarantees

Condition: The Hospital did not accrue for future payments to be paid to a physician under a contract including an income guarantee in accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners."

Criteria: Physician contracts should be evaluated against FIN 45-3 for potential income guarantees which would require the Hospital to make payments in the future.

Cause: During 2010, the Hospital entered into a physician agreement which included an income guarantee which was not recorded by the Hospital.

Effect: An audit adjustment was necessary to record an intangible asset and related liability related to physician and physician group agreements.

Recommendation: We recommend that management analyze physician and physician group agreements with income guarantees for possible recognition of future commitments.

Management's Response: As we enter into these agreements we will review them for recognition of commitments and record any necessary guarantees.

Mark Milford Hicksville Joint Hospital District
Schedule of Prior Audit Findings and Responses
Year Ended December 31, 2009

2009:1 Physician Recruitment Asset and Liabilities

Condition: The Hospital did not accrue for future payments to be paid to physicians under contracts including income guarantees in accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners."

Recommendation: We recommend that management analyze physician and physician group agreements with income guarantees for possible recognition of future commitments.

Current Status: The finding was repeated in 2010. See 2010:1.

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Dave Yost • 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 9, 2011**