

**Mark Milford Hicksville  
Joint Township Hospital District**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

*CPAs / ADVISORS*







**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Report of Independent Auditors* of the Mark Milford Hicksville Joint Township Hospital, Defiance County, prepared by Blue & Co., LLC, for the audit period January 1, 2005 through December 31, 2005. 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 is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

September 28, 2006

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# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## TABLE OF CONTENTS DECEMBER 31, 2005 AND 2004

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited).....	i-v
<b>Financial Statements</b>	
Balance Sheets .....	3
Statements of Revenues, Expenses and Changes in Net Assets .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	18
Schedule of Findings .....	19

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District doing business as Community Memorial Hospital's (Hospital) financial performance provides an overall review of the Hospital's financial activities. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Hospital's financial performance.

### Financial Highlights

- In 2005, total assets increased \$12,638,000 over 2004 levels. Net accounts receivable increased \$21,000. Net days revenue in accounts receivable was 63 days at December 31, 2005, compared to 67 days at December 31, 2004. The most significant change in assets related to the trustee-held funds representing amounts held at the trustee for the expansion project.
- Total liabilities increased \$12,643,000; current liabilities increased \$589,000; other and long-term liabilities increased \$12,050,000 from December 31, 2004 to December 31, 2005. The Hospital issued \$12,600,000 of new debt in 2005 relating to the expansion project.
- Net cash provided by operating activities was \$944,000 in 2005 compared to \$385,000 in 2004. The change is primarily due to an increase in accounts payable and estimated third-party settlements.

### Overview of the Financial Statements

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

The financial statements include the accounts and transactions of the Hospital.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Balance Sheet, Statement 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 Hospital's 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 Statement of Income and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Statement of Cash Flows report the sources and uses of cash during the year.

### Financial Analysis of the Hospital

The Hospital's net assets decreased from \$8,421,250 in 2004 to \$8,415,454 in 2005. Table 1 provides a summary of the Hospital's balance sheet for 2005 compared to 2004.

Table 1  
Net Assets

	2005	2004
<b>Assets</b>		
Current assets	\$ 3,749,720	\$ 3,705,763
Assets whose use is limited	13,340,586	2,340,658
Capital assets	5,541,645	4,107,296
Other	243,288	83,712
<b>Total assets</b>	<u>22,875,239</u>	<u>10,237,429</u>
<b>Liabilities</b>		
Current liabilities	1,859,785	1,271,148
Long-term	12,600,000	545,031
<b>Total liabilities</b>	<u>14,459,785</u>	<u>1,816,179</u>
<b>Net assets</b>		
Invested in capital assets net of related debt	3,936,059	3,514,449
Unrestricted	4,479,395	4,906,801
<b>Total net assets</b>	<u>\$ 8,415,454</u>	<u>\$ 8,421,250</u>

### Capital Assets

Capital assets increased from \$4,107,296 to \$5,541,645 in 2005. The increase relates to \$2,089,296 in capital additions, offset by \$654,947 in depreciation expense.

### Debt

At December 31, 2005, the Hospital had \$12,600,000 of debt outstanding as detailed in footnote 6. The Hospital issued new debt in 2005.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2005 compared to 2004.

Table 2  
**Revenues and Expenses**

	2005	2004
<b>Revenues</b>		
Net patient service revenue	\$ 11,045,596	\$ 10,398,833
<b>Operating expenses</b>		
Salaries and wages	4,759,945	3,988,985
Purchased services	1,168,398	1,636,071
Employee benefits	1,495,410	1,208,061
Physician office	591,491	644,081
Physician services	863,359	820,516
Depreciation and amortization	654,947	593,284
Supplies	721,354	650,112
Maintenance and repair	250,375	187,496
Utilities	188,857	168,202
Miscellaneous	202,925	191,721
Insurance	185,870	161,287
Total operating expenses	<u>11,082,931</u>	<u>10,249,816</u>
<b>Operating income (loss)</b>	(37,335)	149,017
<b>Non-operating revenue (expenses)</b>		
Investment and other income, net	144,731	136,674
Changes in unrealized gains and losses	(61,239)	224,279
Interest expense	(51,953)	(25,847)
<b>Change in net assets</b>	<u>\$ (5,796)</u>	<u>\$ 484,123</u>



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Net Patient Service Revenue

Compared to 2004, net patient service revenue increased \$646,763 or 6.2%.

Gross patient service revenue increased \$1,561,271 or 11%. On January 1, 2005, the Hospital Board of Trustees approved a 3% price increase. Inpatient revenue increased approximately \$317,000 during 2005 while outpatient revenue increased approximately \$1,244,000, consistent with the industry trend of shifting healthcare services to an outpatient basis.

While net revenue increased 6% during 2005, expenses increased 8%. The Hospital had 121 full-time equivalents in 2005 representing an increase of eight from 2004. Wage increases continued to put pressure on the Hospital in 2005.

### Inpatient Business Activity

Total patient days remained relatively steady in 2005. Declines in maternity and nursery were offset by increases in swing bed.

Table 3  
Patient Days

Unit	2005 Patient Days	2004 Patient Days
Medical	1,127	1,124
Surgical	24	22
Pediatrics	39	38
Swing Bed	736	716
Maternity	161	179
Nursery	131	142
Total	<u>2,218</u>	<u>2,221</u>

### Outpatient Business Activity

The Hospital's outpatient business recorded an increase of \$1,243,609 or 13% in 2005. The area that recorded the largest increase in revenues was in Surgery.

### Deductions from Revenue

Contractual service adjustments, expressed as a percentage of gross revenues were 25% in 2005, compared to 23% in 2004.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Charity care for 2005 decreased to \$324,956 from \$406,094 in 2004. 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.

### **Operating Expenses**

Total operating expenses in 2005 exceeded 2004 levels by \$833,115 or 8%.

The largest increases in operating expenses in 2005 over 2004 level are reflected in salaries and benefits.

### **Non-operating Revenues (Expenses)**

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

### **Economic Factors and Next Year's Budget**

The Board of Trustees approved the 2006-operating budget at their November 2005 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 \$440,226 which represents a 3.8% operating margin.

### **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 Chief Financial Officer at 208 N. Columbus Street, Hicksville, Ohio 43526.



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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 (Hospital), a component unit of Defiance County, Ohio, as of December 31, 2005 and 2004, and the related statements of revenue, 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, 2005 and 2004, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006 on our consideration of Mark Milford Hicksville Joint Township Hospital District's 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.

Board of Trustees  
Page 2

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

March 31, 2006

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## BALANCE SHEETS DECEMBER 31, 2005 AND 2004

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### ASSETS

	<u>2005</u>	<u>2004</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 402,975	\$ 503,039
Investments	963,171	962,159
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$506,000 in 2005 and \$393,000 in 2004	1,915,600	1,894,872
Current portion of miscellaneous receivables	90,111	20,327
Supplies Inventory	104,210	93,186
Prepaid expenses	171,081	122,245
Assets limited as to use - current portion	<u>102,572</u>	<u>109,935</u>
Total current assets	3,749,720	3,705,763
<b>Assets limited as to use</b>		
Internally designated	2,448,744	2,450,593
Trustee held	10,994,414	-
Less amount required to meet current obligations	<u>(102,572)</u>	<u>(109,935)</u>
	13,340,586	2,340,658
<b>Property and equipment, net</b>	5,541,645	4,107,296
<b>Other</b>	243,288	83,712
	<u>5,784,933</u>	<u>4,191,008</u>
Total assets	<u>\$ 22,875,239</u>	<u>\$ 10,237,429</u>

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See accompanying notes to financial statements.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## BALANCE SHEETS DECEMBER 31, 2005 AND 2004

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### LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ -	\$ 47,816
Accounts payable	1,034,711	466,559
Accrued payroll	378,158	404,555
Estimated third-party settlements	103,608	106,061
Compensated absences	343,308	246,157
Total current liabilities	<u>1,859,785</u>	<u>1,271,148</u>
<b>Long-term debt, less current portion</b>	<u>12,600,000</u>	<u>545,031</u>
Total liabilities	14,459,785	1,816,179
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,936,059	3,514,449
Unrestricted	4,479,395	4,906,801
Total net assets	<u>8,415,454</u>	<u>8,421,250</u>
Total liabilities and net assets	<u>\$ 22,875,239</u>	<u>\$ 10,237,429</u>

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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, 2005 AND 2004

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	<u>2005</u>	<u>2004</u>
<b>Revenue</b>		
Net patient service revenue	\$ 11,045,596	\$ 10,398,833
<b>Expenses</b>		
Salaries and wages	4,759,945	3,988,985
Employee Benefits	1,495,410	1,208,061
Physician Services	863,359	820,516
Purchased services	1,168,398	1,636,071
Supplies	721,354	650,112
Maintenance and repairs	250,375	187,496
Utilities	188,857	168,202
Insurance	185,870	161,287
Miscellaneous	202,925	191,721
Depreciation and amortization	654,947	593,284
Physician offices	591,491	644,081
Total operating expenses	<u>11,082,931</u>	<u>10,249,816</u>
<b>Operating income (loss)</b>	(37,335)	149,017
<b>Non-operating revenues (expenses)</b>		
Investment and other income, net	144,731	136,674
Interest expense	(51,953)	(25,847)
Change in net unrealized gains and losses	(61,239)	224,279
Total non-operating revenues (expenses)	<u>31,539</u>	<u>335,106</u>
Change in net assets	(5,796)	484,123
Net assets, beginning of year	<u>8,421,250</u>	<u>7,937,127</u>
Net assets, end of year	<u><u>\$ 8,415,454</u></u>	<u><u>\$ 8,421,250</u></u>

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See accompanying notes to financial statements.

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 11,022,415	\$ 10,227,460
Cash paid to suppliers for services and goods	(3,893,697)	(4,801,266)
Cash payments to employees for services	(6,184,601)	(5,041,475)
Net cash from operating activities	944,117	384,719
<b>Cash flows from capital and related financing activities</b>		
Principal payments on long-term debt	(592,847)	(91,327)
Issuance of long-term debt	12,600,000	-
Acquisitions and construction of capital assets	(2,089,296)	(695,652)
Interest paid on capital related debt and capital leases	(51,953)	(25,847)
Net cash from capital and related financing activities	9,865,904	(812,826)
<b>Cash flows from investing activities</b>		
Other changes in investments and assets whose use is limited, net	(9,426,443)	561,774
Interest on investments	106,062	83,151
Other non-operating income	38,669	97,329
Net cash from investing activities	(9,281,712)	742,254
<b>Net change in cash and cash equivalents</b>	1,528,309	314,147
<b>Cash and cash equivalents, beginning of year</b>	1,014,107	699,960
<b>Cash and cash equivalents, end of year</b>	\$ 2,542,416	\$ 1,014,107
<b>Cash and cash equivalents include the following</b>		
Cash and equivalents	\$ 402,975	\$ 503,039
Assets limited as to use - cash and cash equivalents		
Funds available for future construction and equipment	2,139,441	511,068
Total cash and cash equivalents	\$ 2,542,416	\$ 1,014,107
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income (loss)	\$ (37,335)	\$ 149,017
<b>Adjustments to reconcile operating income to net cash from operating activities</b>		
Depreciation and amortization	654,947	593,284
Provision for bad debts	484,436	309,301
Changes in operating assets and liabilities		
Patient accounts receivable	(505,164)	(913,735)
Estimated third-party settlements	(2,453)	433,061
Other	(229,360)	129,350
Supplies inventory	(11,024)	655
Prepaid expenses	(48,836)	(42,210)
Accounts payable	568,152	(429,575)
Accrued expenses	70,754	155,571
Net cash from operating activities	\$ 944,117	\$ 384,719

*See accompanying notes to financial statements.*



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization

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

#### 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.

Cash paid for interest was \$51,953 and \$25,847 for the years ended December 31, 2005 and 2004 respectively.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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### Property and Equipment

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

### Net Assets

Net assets of the Hospital are classified in two 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.

### Operating Revenues and Expenses

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

### 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 both 2005 and 2004.

### 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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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### Investments and Assets Limited as to Use

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

### Inventories

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

### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$325,000 and \$406,000 in 2005 and 2004, respectively.

## 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:

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

*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 extremely 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 organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2003 and with Medicaid through 2001. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2005 and 2004, which Hospital management believes will approximate final settlements after audit by the respective agencies.

### 3. 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:

	2005		2004	
	Fair value	Cost	Fair value	Cost
Demand deposits and money market accounts	\$ 2,139,441	\$ 2,139,441	\$ 511,068	\$ 511,068
Certificates of deposit	2,671,000	2,671,000	2,648,723	2,648,723
Collateralized mortgage obligations	9,259,664	9,304,113	-	-
Stock	739,200	248,000	756,000	248,000
Total	<u>\$ 14,809,305</u>	<u>\$ 14,362,554</u>	<u>\$ 3,915,791</u>	<u>\$ 3,407,791</u>

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

At December 31, 2005, the bank balance of the Hospital's demand deposits and money market accounts totaled \$2,419,917. Of this balance, \$330,449 was covered by federal depository insurance and \$2,089,468 was collateralized with securities held at the pledging banks.

Investments in collateralized mortgage obligations were uninsured and held by the Hospital's agent in the Hospital's name. Investments in common stock were held by the Hospital in the Hospital's name.

Common stock with a fair value at its donation of \$248,000 and market value of \$739,200 and \$756,000, respectively at December 31, 2005 and 2004 is not readily traded on a quoted market; therefore, the year-end Market value is determined by valuation.

The Hospital's investments generally are reported at fair value. At December 31, 2005, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital:

	Carrying Amount	Maturities		
		Less than 1 Year	1-5 years	>Than 5 Years
Certificates of deposit	\$ 2,671,000	\$ 2,171,000	\$ 500,000	\$ -
Collateralized mortgage obligations	9,259,664	-	-	9,259,664
Total	<u>\$ 11,930,664</u>	<u>\$ 2,171,000</u>	<u>\$ 500,000</u>	<u>\$ 9,259,664</u>

*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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

### 4. PROPERTY AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2005 and 2004:

2005	12/31/2004	Increases	Decreases	12/31/2005
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	438,198	861,724	-	1,299,922
Land and land improvements	268,127	4,165	(16,250)	256,042
Building and fixed equipment	3,920,009	27,516	-	3,947,525
Furniture and fixtures	5,278,709	1,195,891	(684,381)	5,790,218
Capital Leases	396,473	-	(296,473)	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>11,390,366</u>	<u>2,089,296</u>	<u>(997,104)</u>	<u>12,482,558</u>
Less accumulated depreciation	<u>(7,283,070)</u>	<u>(654,947)</u>	<u>997,104</u>	<u>(6,940,913)</u>
Total property and equipment, net	<u>\$ 4,107,296</u>	<u>\$ 1,434,349</u>	<u>\$ (0)</u>	<u>\$ 5,541,645</u>

  

2004	12/31/2003	Increases	Decreases	12/31/2004
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	247,627	190,571	-	438,198
Land and land improvements	264,927	3,200	-	268,127
Building and fixed equipment	3,909,883	10,126	-	3,920,009
Furniture and fixtures	5,942,724	491,755	(1,155,770)	5,278,709
Capital Leases	396,473	-	-	396,473
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>11,850,484</u>	<u>695,652</u>	<u>(1,155,770)</u>	<u>11,390,366</u>
Less accumulated depreciation	<u>(7,815,292)</u>	<u>(593,284)</u>	<u>1,125,506</u>	<u>(7,283,070)</u>
Total property and equipment, net	<u>\$ 4,035,192</u>	<u>\$ 102,368</u>	<u>\$ (30,264)</u>	<u>\$ 4,107,296</u>

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

### 5. LONG-TERM DEBT

Long term debt consists of the following:

	2005	2004
2005 County Hospital Facilities Revenue Bonds, Serial Bonds, 1.15% variable rate due December 1, 2037, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$390,000 plus interest	\$ 12,600,000	\$ -
Note payable to bank, dated 12/14/99, due in monthly installments of principal plus interest at 4.85% maturing December 2014 and collateralized by certain investments	-	592,847
	12,600,000	592,847
Less current portion	-	(47,816)
	\$ 12,600,000	\$ 545,031

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

	Note payable to bank	Capital Leases	Total
December 31, 2003	\$ 638,317	\$ 45,857	\$ 684,174
Additions	-	-	-
Payments	45,470	45,857	91,327
December 31, 2004	\$ 592,847	\$ -	\$ 592,847
Amounts due within one year	\$ 47,816	\$ -	\$ 47,816

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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Scheduled payments on long-term debt are as follows:

<u>Year ending</u>	<u>Principal payments</u>	<u>Interest payments</u>	<u>Total</u>
2006	\$ -	\$ 144,900	\$ 144,900
2007	-	144,900	144,900
2008	95,000	144,900	239,900
2009	95,000	143,808	238,808
2010	100,000	172,715	272,715
2011-2015	625,000	694,371	1,319,371
2016-2020	815,000	654,121	1,469,121
2021-2025	1,050,000	602,025	1,652,025
2026-2030	1,325,000	535,671	1,860,671
2031-2035	1,695,000	451,491	2,146,491
2036-2037	6,800,000	151,915	6,951,915
Total	<u>\$ 12,600,000</u>	<u>\$ 3,840,817</u>	<u>\$ 16,440,817</u>

During 2005, the Hospital obtained \$12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005, for the purpose constructing, equipping, installing and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037 with a balloon payment of \$6,410,000. The adjustable interest rate at December 31, 2005 was 1.15%. The debt is collateralized by Hospital receipts, lien on the property and a letter of credit issued by Fifth Third Bank. The letter of credit expires December 15, 2010.

## 6. LINE OF CREDIT

The Hospital has a line of credit with a bank in the amount of \$350,000. The line carries a 4.9% rate of interest and requires monthly interest payments. At December 31, 2005 and 2004 the Hospital had no borrowings against the line. The line is secured by investments of the Hospital.



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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### 8. 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) 222-6701 or (800) 222-PERS (7377).

#### Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2005	\$ 693,306
2004	\$ 576,792
2003	\$ 577,171

PERS also provides post-retirement healthcare 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 PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2005 and 2004 employer contribution rates of 13.55% used to fund healthcare was 4.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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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. The investment return assumption rate for 2004 was 8%. 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%. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287.

Hospital contributions made to fund post-employment benefits approximated \$205,000 and \$170,000 for 2005 and 2004, respectively.

The actuarial value of OPERS net assets at December 31, 2004 were \$10.8 million. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$29.5 million and \$18.7 million, 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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

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### 9. 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.

### 10. CONCENTRATION OF CREDIT RISK

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

	<u>2005</u>	<u>2004</u>
Medicare	23%	28%
Medicaid	12%	8%
Blue Cross	12%	13%
Other third-party payors	25%	25%
Self-pay	28%	26%
	<u>100%</u>	<u>100%</u>

### 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 organization by the other. The agreement is in effect for a period of three years and may be renewed by mutual agreement of both parties.

### 12. COMMITMENT

The Hospital entered into a construction plan during 2005. The total estimated cost to complete the project is \$14,500,000. At December 31, 2005 the Hospital had incurred approximately \$1,500,000 of costs related to the project.



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

**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**

We have audited the financial statements of Mark Milford Hicksville Joint Township District, as of and for the years ended December 31, 2005, and have issued our report thereon dated March 31, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Mark Milford Hicksville Joint Township Hospital District in a separate letter dated March 31, 2006.

**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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2005-1.

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*

March 31, 2006

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED DECEMBER 31, 2005**

**Findings related to the financial statements required to be reported in accordance with**  
**GAGAS.**

Finding number: 2005-1

Criteria:

Ohio Rev. Code Section 135 requires, among other things, that investments be in certain approved types of securities and that maturity dates are to be within 5 years from the date of settlement.

Condition:

The Hospital invested certain proceeds from the adjustable rate demand hospital facilities revenue bonds, series 2005, in collateralized mortgage obligations that were not in compliance with the Ohio Revised Code at December 31, 2005.

Cause:

There was miscommunication between the parties involved in investing bond proceeds and the Hospital.

Effect:

A portion of the Hospital's investment portfolio is not in compliance with Ohio Revised Code Section 135.

Management's Response:

The Hospital was notified of this instance of noncompliance and is in agreement with this finding.

The Hospital has directed the respective investment manager to liquidate these investments and reinvest the funds in approved securities. Management will also periodically perform a review of the investment portfolio to monitor compliance on a periodic basis.

We recommend the Hospital review their investments on a periodic basis to determine that their investment holdings are in accordance with the Ohio Rev. Code Section 135.





**Auditor of State  
Betty Montgomery**

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**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL  
DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 12, 2006**