

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**





# Dave Yost • Auditor of State

Board of Governors  
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, 2011 through December 31, 2011. 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 16, 2012

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

TABLE OF CONTENTS  
DECEMBER 31, 2011

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited).....	i-vii
<b>Financial Statements</b>	
Consolidated Balance Sheet.....	3
Consolidated Statement of Revenue, Expenses and Changes in Net Assets .....	5
Consolidated Statement of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	25
Schedule of Audit Findings and Responses – Year Ended December 31, 2011 .....	27
Schedule of Prior Audit Findings and Responses – Year Ended December 31, 2010 .....	28

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# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011

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The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), doing business as Community Memorial Hospital (the Hospital) focuses on the Hospital's financial performance. This discussion and analysis excludes the blended component unit Community Memorial Hospital Foundation Inc. (the Foundation). The Foundation is a supporting organization of the Hospital and not the primary activity of the Organization. Readers should also read the notes to the basic consolidated financial statements to enhance their understanding of the Organization's financial performance.

### Financial Highlights

- The Hospital's net assets decreased \$1,029,384 in 2011, \$187,205 in 2010 and \$514,433 in 2009. Management's plans relating to returning the Organization to profitability are contained in footnote 16 of the consolidated financial statements.
- Total assets and deferred outflows increased \$1,298,089 from \$19,998,330 at December 31, 2010 to \$21,296,419 at December 31, 2011. Net days receivable were 62 and 63 days at December 31, 2011 and 2010, respectively.
- Total liabilities increased \$2,327,473 which relates primarily to an increase in the interest rate swap, estimated third party settlement, compensated absences and accounts payable.
- Net patient service revenue increased \$2,697,927 or 13.1%, over 2010. Total operating expenses increased \$3,470,680, or 17.2%, over 2010. There was an operating loss of \$397,174 in 2011 compared to an operating gain of \$375,579 in 2010.
- Net cash provided from operating activities was approximately \$1,089,000 in 2011 and approximately \$1,454,000 in 2010.

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

The analysis of the Hospital's 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

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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?”

**Overview of the Financial Statements**

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the Organization 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. The consolidated financial statements include the accounts and transactions of the Community Memorial Hospital Foundation, Inc., a separate not-for-profit entity organized to support the operations of the Hospital.

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 Governors, 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**

Total net assets decreased \$1,029,384 from \$4,380,572 at December 31, 2010 to \$3,351,188 at December 31, 2011. Table 1 provides a summary of the Hospital's balance sheets at December 31, 2011, 2010 and 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

Table 1: Net Assets

	2011	2010	2009
<b>Assets</b>			
Current assets	\$ 5,465,415	\$ 5,670,547	\$ 4,786,248
Assets whose use is limited, net of current portion	428,002	427,299	456,155
Capital assets	13,236,271	12,378,384	13,084,325
Other	819,900	623,916	518,751
Deferred outflows	1,346,831	898,184	788,505
<b>Total assets and deferred outflows</b>	<u>21,296,419</u>	<u>19,998,330</u>	<u>19,633,984</u>
<b>Liabilities</b>			
Current liabilities	3,548,481	2,862,335	2,103,702
Interest rate swap	1,346,831	898,184	788,505
Other long-term	13,049,919	11,857,239	12,174,000
<b>Total liabilities</b>	<u>17,945,231</u>	<u>15,617,758</u>	<u>15,066,207</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	(119,014)	396,384	888,325
Restricted	13,612	71,205	131,335
Unrestricted	3,456,590	3,912,983	3,548,117
<b>Total net assets</b>	<u>\$ 3,351,188</u>	<u>\$ 4,380,572</u>	<u>\$ 4,567,777</u>

**Capital Assets**

Capital assets increased from \$12,378,384 in 2010 to \$13,236,271 in 2011. The increase relates primarily to \$2,188,550 in capital additions offset by depreciation expense of \$1,330,663.

**Debt**

At December 31, 2011, the Hospital had 13,355,285 of debt outstanding. The Hospital manages a portion of its interest rate risk through a pay-fixed, receive-variable interest rate swap related to \$6,200,000 of its bonds.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

**Revenues and Expenses**

Table 2 shows the changes in revenues and expenses for 2011 compared to 2010 and 2009.

Table 2: Revenues and Expenses

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenue</b>			
Net patient service revenue	\$ 23,287,873	\$ 20,589,946	\$ 19,813,788
<b>Operating expenses</b>			
Salaries and wages	10,898,911	9,185,437	8,645,452
Employee benefits	4,170,977	2,861,456	2,229,698
Physician services	1,056,685	1,055,022	2,738,615
Purchased services	2,752,821	2,425,489	1,059,179
Supplies	1,510,200	1,264,698	1,776,083
Maintenance and repairs	531,689	530,051	1,242,768
Utilities	627,403	593,443	472,502
Insurance	336,326	378,969	572,584
Miscellaneous	469,372	511,978	397,343
Depreciation	1,330,663	1,407,824	414,771
Total operating expenses	<u>23,685,047</u>	<u>20,214,367</u>	<u>19,548,995</u>
<b>Operating gain (loss)</b>	(397,174)	375,579	264,793
<b>Non-operating revenue (expenses)</b>			
Investment and other income, net	72,582	86,308	37,200
Interest expense	(704,792)	(649,092)	(816,426)
Total non-operating revenues (expenses)	<u>(632,210)</u>	<u>(562,784)</u>	<u>(779,226)</u>
<b>Change in net assets</b>	<u>\$ (1,029,384)</u>	<u>\$ (187,205)</u>	<u>\$ (514,433)</u>

**Net Patient Service Revenue**

Gross patient service revenue increased \$6,169,401 in 2011, or 17%, over 2010. Inpatient revenue increased \$277,764 during 2011 while outpatient revenue increased \$5,891,637. There was an overall rate increase of 3% in 2011. Also, outpatient visits increased 18% over the prior year while inpatient days increased 3% from the prior year.

Net patient service revenue increased \$2,697,927, or 13%, from \$20,589,946 in 2010 to \$23,287,873 in 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

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Total inpatient days decreased in 2011 as shown below in relation to 2010 and 2009:

Table 3

Unit	2011 Patient Days	2010 Patient Days	2009 Patient Days
Medical	1,427	1,335	1,472
Medical Beds	91	101	27
Surgical	44	71	104
Pediatrics	50	22	38
Swing Bed	918	1,035	935
Maternity	262	283	289
Nursery	215	228	241
Respite	-	-	4
Total	3,007	3,075	3,110

**Deductions from Revenue**

Contractual service adjustments, charity care and bad debts, expressed as a percentage of gross revenues, were 47% in 2011, compared to 44% in 2010.

Charity care deductions from revenue for 2011 increased to \$1,501,903 from \$1,057,146 in 2010. The number of uninsured and underinsured continues to grow in the State of Ohio. The State of Ohio developed a program in the late 1980's designed to help hospitals address the increasing number of low income, special need patients. The program, named the State of Ohio Care Assurance Program, is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of dollars is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

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**Operating Expenses**

Total operating expenses in 2011 exceeded 2010 levels by \$3,470,680, representing a 17.2% increase.

The largest increases in operating expenses in 2011 over 2010 level are reflected in employee benefits expenses, salaries and wages, purchased services and supplies.

**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 \$2,188,550 during 2011 compared to \$704,367 during 2010.

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

The Board of Governors approved the 2012 operating budget at their October 2011 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 1.1%.

The net patient revenue for the year improved by 13.1% and our operating expenses increased 17.2% over 2010 giving us a (1.8%) operating margin. Day's cash on hand is 27 at year end compared to 36 days at the end of 2010. Salaries and benefits as a percentage of net revenue have improved moving down towards our goal of 50% of net revenue. We were not in compliance with our debt service covenant at December 31, 2011, however, we received a waiver from the bank. The Hospital has a dedicated senior management team along with talented managers that are dedicated to the success of the Hospital.

The end of 2011 saw the completion of five years of the Hospital in the new facility. In those five 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  
AND SUBSIDIARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2011**

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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.



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blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Governors

Mark Milford Hicksville Joint Township Hospital District and Subsidiary  
Hicksville, Ohio

We have audited the accompanying consolidated balance sheet of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization) as of December 31, 2011, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District and Subsidiary as of December 31, 2011, and its results of operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012 on our consideration of Mark Milford Hicksville Joint Township Hospital District and Subsidiary'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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i through vii be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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*

July 3, 2012

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

**CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2011**

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**ASSETS**

**Current assets**

Cash and cash equivalents	\$	523,275
Investments		464,737
Patient accounts receivable, net of allowance for doubtful accounts of \$1,851,000		3,936,012
Other receivables		202,746
Supplies inventory		178,136
Prepaid expenses		167,727
Total current assets		<u>5,472,633</u>

**Assets limited as to use**

Internally designated		428,002
Held by Foundation		311,587
Total assets limited as to use		<u>739,589</u>

**Capital assets, net**

13,236,271

**Other**

Other receivables, long term		668,694
Bond issuance costs		210,090
Total other assets		<u>878,784</u>

**Deferred outflows**

1,346,831

Total assets and deferred outflows \$ 21,674,108

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*See accompanying notes to consolidated financial statements.*

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

CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2011

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**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 761,451
Accrued expenses	1,143,039
Compensated absences	552,900
Estimated third party settlement	591,725
Current portion of long-term debt	349,366
Total current liabilities	<u>3,398,481</u>

**Long-term debt** 13,005,919

**Interest rate swap** 1,346,831

**Other long term liabilities** 44,000

Total liabilities 17,795,231

**Net assets (Deficiency in net assets)**

Invested in capital assets, net of related debt	(119,014)
Restricted	541,301
Unrestricted	3,456,590
Total net assets	<u>3,878,877</u>

Total liabilities and net assets \$ 21,674,108

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*See accompanying notes to consolidated financial statements.*



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2011

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<b>Operating revenue</b>	
Net patient service revenue	\$ 23,287,873
<b>Operating expenses</b>	
Salaries and wages	10,898,911
Employee benefits	4,170,977
Physician services	1,056,685
Purchased services	2,752,821
Supplies	1,510,200
Maintenance and repairs	531,689
Utilities	627,403
Insurance	336,326
Miscellaneous	494,987
Depreciation	1,330,663
Total operating expenses	<u>23,710,662</u>
<b>Operating loss</b>	(422,789)
<b>Non-operating revenues (expenses)</b>	
Investment and other income, net	236,664
Interest expense	<u>(704,792)</u>
Total non-operating revenues (expenses)	<u>(468,128)</u>
<b>Change in net assets</b>	(890,917)
<b>Net assets, beginning of year</b>	<u>4,769,794</u>
<b>Net assets, end of year</b>	<u><u>\$ 3,878,877</u></u>

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See accompanying notes to consolidated financial statements.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

<b>Cash flows from operating activities</b>	
Cash received from patients and third-party payors	\$ 23,029,992
Cash paid to suppliers for services and goods	(7,229,201)
Cash payments to employees for wages and benefits	(14,798,919)
Net cash from operating activities	<u>1,001,872</u>
<b>Cash flows from capital and related financing activities</b>	
Payments on long-term debt	(246,467)
Acquisitions and construction of capital assets	(568,798)
Interest paid on capital related debt and capital leases	(696,388)
Net cash from capital and related financing activities	<u>(1,511,653)</u>
<b>Cash flows from investing activities</b>	
Interest on investments	236,664
Other changes in investments	(4,527)
Net cash from investing activities	<u>232,137</u>
<b>Net change in cash and cash equivalents</b>	<u>(277,644)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,918,588</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 1,640,944</u></u>
<b>Cash and cash equivalents include the following</b>	
Cash and equivalents	\$ 988,012
Assets limited as to use and investments - cash and cash equivalents	652,932
Total cash and cash equivalents	<u><u>\$ 1,640,944</u></u>
<b>Reconciliation of operating loss to net cash flows from operating activities</b>	
Operating loss	\$ (422,789)
<b>Adjustments to reconcile operating loss to net cash from operating activities</b>	
Depreciation	1,330,663
Bad debt	1,284,422
Changes in operating assets and liabilities	
Patient accounts receivable	(1,687,911)
Estimated third-party settlements	145,608
Other receivables	153,546
Supplies inventory	(1,183)
Prepaid expenses	(10,417)
Accounts payable	(61,036)
Accrued expenses	330,208
Other long term liabilities	(59,239)
Net cash from operating activities	<u><u>\$ 1,001,872</u></u>
<b>Supplemental disclosure of non cash activities</b>	
Change in interest rate swap and deferred outflows	\$ 448,647
Financed fixed asset additions	\$ 1,619,752

*See accompanying notes to consolidated financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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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) 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.

#### Blended Component Unit

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

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### Cash Equivalents

Cash equivalents include all highly liquid investments purchased with original maturities of three months or less.

### Restricted Resources

It is the Organization'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.

### 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 Organization 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 Organization are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the 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 Organization. Restricted net assets are restricted to Organization 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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### Operating Revenues and Expenses

The Organization's consolidated 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, interest expense and change in the Foundation. 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.

### Compensated Absences

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

### Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses 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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Of the Organization's total reported expenses (approximately \$23,711,000 during 2011), an estimated \$838,000 arose from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Organization's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$406,000 in 2011.

### Federal Income Tax

As a political subdivision, the Organization is exempt from taxation under the Internal Revenue Code.

### Physician Recruitment Agreements and Physician Advances Receivable

Consistent with the Organization's policy on physician recruitment, the Organization provides income guarantees to certain physicians who agree to relocate to the community to fill a need in the Organization's service area and commit to remain in practice for a specified term. Under such agreements, the Organization is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount 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 Organization 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 Organization and the physician be terminated prior to the end date agreed upon by both parties, the Organization will pursue collection by outstanding advances.

The Organization recorded a liability of approximately \$63,000 in accrued expenses and other long term liabilities at December 31, 2011 for the estimated obligation to the Organization (current and long-term) under these arrangements with an offsetting asset recorded in other receivables within the accompanying balance sheet.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### Subsequent Events

The Organization 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 July 3, 2012.

## 2. CHANGE IN REPORTING ENTITY

During 2011, Community Memorial Hospital Foundation, Inc. (the Foundation) was determined to be material to the Organization's financial statements taken as a whole. As such, the Foundation's financial position and activities have been included within the consolidated financial statements of the Organization.

The effect of the change in reporting entity on the accompanying consolidated financial statements are as follows:

Net assets at January 1, 2011, as previously reported	\$	4,380,572
Change in reporting entity		389,222
Net assets at January 1, 2011, as restated	\$	<u>4,769,794</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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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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 2006. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2011, which Hospital management believes will approximate final settlements after audit by the respective agencies.

Net patient service revenue consists of the following:

Revenue	2011
Gross inpatient	\$ 9,938,476
Gross outpatient	24,409,269
Physician offices and other	8,793,557
Total patient revenue	<u>43,141,302</u>
Revenue deductions	
Provision for contractual allowances	17,067,104
Provision for bad debt allowances	1,284,422
Provision for charity care	1,501,903
Total revenue deductions	<u>19,853,429</u>
Total net patient service revenue	<u>\$ 23,287,873</u>



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2011
Patient accounts receivable	\$ 8,075,090
Allowance for uncollectible accounts	(1,850,879)
Allowance for contractual adjustments	(2,288,199)
Net patient accounts receivable	\$ 3,936,012

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. Uncollectible accounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

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:

	2011	
	Accounts Receivable	Gross Revenue
Medicare	17%	32%
Medicaid	4%	3%
Blue Cross	11%	18%
Other third-party payors	41%	42%
Self-pay	27%	5%
	100%	100%

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

### 5. DEPOSITS AND INVESTMENTS

Cash deposits, assets whose use is limited, and investments (all of which are considered available for sale) of the Organization are composed of the following at December 31, 2011:

	Fair value	Cost
Demand deposits and money market accounts	\$ 1,037,968	\$ 1,037,968
Certificates of deposit	602,976	602,976
Stocks	74,845	73,977
Mutual funds	11,812	12,000
Total	\$ 1,727,601	\$ 1,726,921

	Fair value	Cost
Amounts summarized by fund-type		
General funds:		
Cash and investments	\$ 988,012	\$ 988,012
Assets limited as to use	739,589	733,602
	\$ 1,727,601	\$ 1,721,614

At December 31, 2011, the financial institution balance of the Organization's demand deposits, certificates of deposit and money market accounts totaled \$1,939,196. Of this balance, \$1,371,234 was covered by federal depository insurance and \$567,962 was collateralized with securities held at the pledging banks.

The Organization had the following investments and maturities, all of which are held in the organizations name by a custodial bank that is an agent of the Organization.

	Carrying Amount	Maturities		
		Less than 1 Year	1-5 years	>Than 5 Years
Certificates of deposit	\$ 602,976	\$ 602,976	\$ -	\$ -
Total	\$ 602,976	\$ 602,976	\$ -	\$ -

*Interest Rate Risk.* The Organization has a formal investment policy that limits investment maturities to two years or less as a means of managing its exposure to fair value losses arising from changing interest rates.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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*Credit Risk.* The Organization may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by the federal government or instrumentality; time certificate of deposits or savings or deposit accounts, including passbook accounts; certain bonds and other obligations; no load money market funds; certain commercial paper; and certain repurchase agreements.

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

### 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).

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.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Stock</b>				
Telecommunication	\$ 17,069	\$ -	\$ -	\$ 17,069
Commodity	4,274			4,274
Financial sector	7,454			7,454
Real estate	11,059			11,059
Health care	5,453			5,453
Retail	4,880			4,880
Preferred	24,656			24,656
<b>Mutual Funds</b>				
Corporate bond	11,812			11,812
<b>Total</b>	<b>\$ 86,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 86,657</b>
<b>Liabilities:</b>				
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	\$ -	\$ 1,346,831	\$ -	\$ 1,346,831

## 7. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2011:

2011	12/31/2010	Increases	Decreases	12/31/2011
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	320,814	1,445,818	-	1,766,632
Land and land improvements	329,346	-	-	329,346
Building and fixed equipment	15,874,655	-	-	15,874,655
Furniture and fixtures	7,617,078	727,666	-	8,344,744
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	15,066	-	913,235
Contractual equipment	13,903	-	-	13,903
<b>Total capital assets</b>	<b>25,330,743</b>	<b>2,188,550</b>	<b>-</b>	<b>27,519,293</b>
<b>Less accumulated depreciation</b>				
Land and land improvements	(274,439)	(11,141)	-	(285,580)
Building and fixed equipment	(11,106,739)	(1,234,479)	-	(12,341,218)
Family health center	(1,045,089)	(49,070)	-	(1,094,159)
Rehabilitation center	(512,189)	(35,973)	-	(548,162)
Contractual equipment	(13,903)	-	-	(13,903)
<b>Total accumulated depreciation</b>	<b>(12,952,359)</b>	<b>(1,330,663)</b>	<b>-</b>	<b>(14,283,022)</b>
<b>Total capital assets, net</b>	<b>\$ 12,378,384</b>	<b>\$ 857,887</b>	<b>\$ -</b>	<b>\$ 13,236,271</b>

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

### 8. LONG-TERM DEBT

Long term debt consists of the following at December 31:

	2011
2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (0.26% at December 31, 2011), due December 1, 2032, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$475,000 plus interest	\$ 6,200,000
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	5,554,000
Lease - purchase agreement, electronic medical record equipment (EMR) and software, principal and interest payments ranging from \$15,793 to \$31,734, through May, 2017. Interest at 5.46%, secured by related equipment and software	1,601,285
Less current portion	(349,366)
Long-term debt	\$ 13,005,919

	Revenue Bonds Series 2005	Revenue Refunding 2007 Bonds	EMR Financing	Total
December 31, 2010	\$ 6,310,000	\$ 5,672,000	\$ -	\$ 11,982,000
Additional Borrowing	-	-	1,619,752	1,619,752
Payments	110,000	118,000	18,467	246,467
December 31, 2011	\$ 6,200,000	\$ 5,554,000	\$ 1,601,285	\$ 13,355,285
Amounts due within one year	\$ 115,000	\$ 123,000	\$ 111,366	\$ 349,366

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

Scheduled payments on long-term debt are as follows:

Using rates as of December 31, 2011, 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		EMR Financing		Total
	Principal	Interest	Interest Rate Swap, Net	Principal	Interest	Principal	Interest	
2012	\$ 115,000	\$ 16,139	\$ 266,104	\$ 123,000	\$ 229,103	\$ 111,366	\$ 78,298	\$ 939,010
2013	125,000	15,840	261,168	128,000	224,029	307,011	73,797	1,134,845
2014	135,000	15,514	255,803	134,000	218,749	324,213	56,595	1,139,874
2015	140,000	15,163	250,009	139,000	213,221	342,378	38,430	1,138,201
2016	145,000	14,799	244,000	145,000	207,488	361,561	19,246	1,137,094
2017-2021	860,000	67,850	1,118,709	818,000	942,728	154,756	2,104	3,964,147
2022-2026	1,100,000	55,446	-	1,002,000	759,456	-	-	2,916,902
2027-2031	1,390,000	40,465	-	1,226,000	535,054	-	-	3,191,519
2032-2036	1,780,000	19,692	-	1,501,000	260,495	-	-	3,561,187
2037	410,000	1,067	-	338,000	13,943	-	-	763,010
Total	<u>\$ 6,200,000</u>	<u>\$ 261,975</u>	<u>\$ 2,395,793</u>	<u>\$ 5,554,000</u>	<u>\$ 3,604,266</u>	<u>\$ 1,601,285</u>	<u>\$ 268,470</u>	<u>\$ 19,885,789</u>

The carrying amount reported on the balance sheet for long-term debt is approximately fair value.

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, 2011 was 0.26%.

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 day's cash on hand requirements. These covenants are required to be tested semi-annually. At December 31, 2011, the Hospital was not in compliance with the debt service coverage requirement and has obtained a waiver. 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%.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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During 2011, the Hospital entered into a lease-purchase agreement to finance the purchase of an electronic health records system. The total obligation was 1,619,752. The obligation is payable monthly beginning in December 2011 through May 2017. Total principal and interest payments are \$15,793 per month for the first 12 payments and \$31,734 thereafter.

### 9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

#### Contract

The Hospital has one interest rate swap agreement in effect at December 31, 2011 for the \$6,200,000 Hospital Facilities Revenue Bonds.

#### Objective

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 Value and Credit Risk

The terms, fair value, and credit ratings of the outstanding swap as of December 31, 2011 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	\$ 6,200,000	1/1/2008	4.460%	0.26%	\$ (1,346,831)	January 1, 2021	A3, BBB+, A-

As of December 31, 2011, the negative fair value of the agreement 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).

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### 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.

### Basis Risk

The swap exposes 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 4.56% for 2011. As of December 31, 2011, the variable rate on the Hospital's Series 2005 bonds was .26% whereas the variable rate from the counterparty was .10%

The Organization 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
Deferred outflows	\$ <u>1,346,831</u>
	Liabilities
Interest rate swap	\$ <u>1,346,831</u>

## 10. OPERATING LEASES

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

2012	\$ 438,240
2013	580,630
2014	22,760
2015	<u>24,656</u>
	<u>\$ 1,066,286</u>

Total rental expense for operating leases, including those with terms of one year or less, for 2011 was \$561,333 and is included within other expenses on the statements of operations and changes in net assets.



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### 11. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2011 and 2010 are as follows:

Payroll and related items	\$ 459,577
Self-insured benefits	125,090
Health insurance claims	<u>558,372</u>
Total salaries, wages and related accruals	<u>\$ 1,143,039</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– a defined contribution plan; and the Combined Plan – 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.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

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 AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### 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 2011 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 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. 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>
2011	\$ 1,414,366
2010	\$ 1,200,335
2009	\$ 1,121,771

Hospital contributions made to fund post-employment benefits approximated \$404,000, \$436,000, and \$471,000 for 2011, 2010 and 2009, 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 AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

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### 13. RISK MANAGEMENT

The Organization is self-insured, subject to certain stop-loss coverage, for its employees' health benefits. The Organization 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 \$930,000. Expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$2,283,878 for 2011.

### 14. AFFILIATION

On July 23, 2003, the Organization 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.

### 15. BLENDED COMPONENT UNIT

The consolidated financial statements include Community Memorial Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the Foundation as of and for the year ended December 31, 2011:

	Foundation
<b>Current assets</b>	
Cash and cash equivalents	\$ 216,177
Investments	95,410
Line of credit - Hospital	150,000
Pledges receivable	13,612
Other receivables	7,218
Total current assets	482,417
<b>Other</b>	
Other receivables, long term	58,884
Total assets	\$ 541,301
<b>Liabilities</b>	
Pledges due to Hospital	\$ 13,612
<b>Net assets</b>	
Restricted	527,689
Total liabilities and net assets	\$ 541,301
<b>Non-operating revenues</b>	\$ 225,573
<b>Expenses</b>	
Miscellaneous	87,106
<b>Excess revenues over expenses</b>	\$ 138,467

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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## 16. MANAGEMENT'S PLANS

Consolidated net assets decreased approximately \$891,000, \$187,000 and \$514,433 during 2011, 2010 and 2009, respectively. There was a loss from operations of approximately \$423,000 in 2011. These factors could be indicative of the entity's inability to continue as a going concern.

Management of the Organization plans to return the Organization to profitability through increasing patient service revenues, evaluation of contribution margins of certain lines of business and flexing staff levels consistent with inpatient census and outpatient needs. The Hospital recently acquired certain physician practices that are in the early phases of operation. Going forward, these practices are anticipated to generate additional revenues for the Hospital.

Through the implementation of a new electronic health records system, the Hospital is eligible for additional reimbursement. This additional reimbursement is expected to assist in repaying the financing related to the acquisition of the health records system.

It is not possible at this time to predict the success of the Organization's future plans, and there is no assurance that these plans will be realized. The Organization's continued existence is dependent on its ability to achieve profitable operations and positive cash flows, and to maintain adequate financing.



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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 and Subsidiary  
Hicksville, Ohio

We have audited the consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 3, 2012. 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**

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider finding 2011-1 in the accompanying schedule of findings and responses in the Organization's internal control to be a material weakness.

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

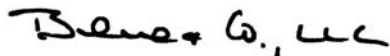
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mark Milford Hicksville Joint Township Hospital District and Subsidiary's consolidated 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 and Subsidiary in a separate letter dated July 3, 2012.

Mark Milford Hicksville Joint Township Hospital District and Subsidiary's response to the finding 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 and Subsidiary's response 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.



July 3, 2012

**Mark Milford Hicksville Joint Hospital District and Subsidiary**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2011**

**2011-1: Revenue Recognition**

Condition: The Hospital did not record certain physician revenue and accounts receivable relating to “pending accounts”. However, the accounts receivable aging captures the appropriate receivable balance based on service date, including the pending accounts. Management excluded these account balances and revenue from the year end patient accounts receivable reconciliation.

Criteria: Patient service revenue should be recognized in the period to which the services are performed.

Cause: The client’s billing system captured the revenue and related accounts receivable balances, however, management did not recognize the amounts within the general ledger.

Effect: The effect of excluding the pending accounts was to understate patient service revenue and accounts receivable.

Recommendation: We recommend management record “pending patient revenue” and “pending accounts receivable” within the general ledger at period end. If necessary, separate general ledger accounts for pending accounts should be created to simplify the billing system to general ledger reconciliation process. This will enable the revenue and accounts receivable to be recognized in the period to which it relates.

*Management’s Response: We will record the pending activity within patient service revenue and accounts receivable as part of the monthly financial statement close process.*

**Mark Milford Hicksville Joint Hospital District and Subsidiary**  
**Schedule of Prior Audit 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."

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

*Current Status: As part of our year-end close we posted the necessary adjustments in consultation with the auditors.*





# Dave Yost • Auditor of State

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

**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  
NOVEMBER 8, 2012**