# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

CPAs / ADVISORS

blue

# Dave Yost · Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Mark Milford Hicksville Joint Township Hospital District and Subsidiary, Defiance County, prepared by Blue & Co., LLC, for the audit period January 1, 2013 through December 31, 2013. 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 and Subsidiary is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

May 27, 2014

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

**This page intentionally left blank.**

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

TABLE OF CONTENTS
DECEMBER 31, 2013 AND 2012

CPAS / ADVISORS

blue

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

blueandco.com

# REPORT OF INDEPENDENT AUDITORS

Board of Governors
Mark Milford Hicksville Joint Township Hospital District and Subsidiary
Hicksville, Ohio

To the Board of Governors:

***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of the business-type activities of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization) as of and for the years ended December 31, 2013 and 2012, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General in the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Organization's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Organization as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Change in Accounting Principles*

As discussed in Note 2 to the consolidated financial statements, in 2013, the Organization adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### *Uncertainty Regarding Going Concern*

The accompanying consolidated financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 9 to the consolidated financial statements, the Organization did not meet certain covenants related to the bonds outstanding at December 31, 2013. As a result the corresponding debt has been classified as a current liability. The bank may demand repayment of the related debt, though no such demand has been made. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis,* listed in the table of contents, to supplement the basic consolidated financial statements. Although this information is not part of the basic consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance

Blue & Co., LLC

Columbus, Ohio
April 29, 2014

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 position decreased $2,519,677 in 2013, which is comprised of an operating loss of $1,975,648 and non-operating expenses of $544,029.

- The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2013 (Note 9). As a result, the corresponding debt has been classified as a current liability. Net position decreased from $4,168,763 at December 31, 2012 to $1,649,086 at December 31, 2013. These conditions raise substantial doubt about its ability to continue as a going concern.

- Total assets and deferred outflows decreased $3,849,113 from $21,816,206 at December 31, 2012 to $17,967,093 at December 31, 2013. Net days in patient accounts receivable were 41 and 61 days at December 31, 2013 and 2012, respectively.

- Net patient service revenue decreased $666,117 or 2.8%, from 2012. Total operating expenses increased $792,689, or 3.2%, over 2012. There was an operating loss of $1,975,648 in 2013 compared to an operating gain of $1,461,868 in 2012.

**The Balance Sheet and Statement of Operations and Changes in Net Position**

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 Operations and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and related changes. You can think of the Hospital's net position—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 position is 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 position decreased $2,519,677 from $4,168,763 at December 31, 2012 to $1,649,086 at December 31, 2013. Table 1 provides a summary of the Hospital's balance sheets at December 31, 2013, 2012 and 2011.

Table 1: Net Position

| | 2013 | 2012 As restated | 2011 As restated |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 4,779,191 | $ 6,755,273 | $ 5,465,415 |
| Assets whose use is limited, net of current portion | 245,798 | 434,410 | 428,002 |
| Capital assets | 11,330,873 | 12,436,245 | 13,236,271 |
| Other | 683,266 | 777,148 | 609,810 |
| Deferred outflows | 927,965 | 1,413,130 | 1,346,831 |
| **Total assets and deferred outflows** | 17,967,093 | 21,816,206 | 21,086,329 |
| **Liabilities** | | | |
| Current liabilities | 14,436,854 | 15,047,918 | 3,548,481 |
| Interest rate swap | 927,965 | 1,413,130 | 1,346,831 |
| Other long-term | 953,188 | 1,186,395 | 13,049,919 |
| **Total liabilities** | 16,318,007 | 17,647,443 | 17,945,231 |
| **Net position** | | | |
| Net invested in capital assets | (1,267,095) | (551,161) | (119,014) |
| Restricted | 91,770 | 51,489 | 13,612 |
| Unrestricted | 2,824,411 | 4,668,435 | 3,246,500 |
| **Total net position** | $ 1,649,086 | $ 4,168,763 | $ 3,141,098 |

## Capital Assets

Capital assets decreased from $12,436,245 in 2012 to $11,330,873 in 2013. The decrease relates primarily to $1,386,096 in depreciation expense offset by additions of $280,724.

## Debt

At December 31, 2013, the Hospital had $12,597,968 of debt outstanding. The Hospital manages a portion of its interest rate risk through a pay-fixed, receive-variable interest rate swap related to $5,960,000 of its bonds.

At December 31, 2013, the Hospital was not in compliance with certain provisions of bond covenants which require a debt service coverage ratio of at least 1.0. The Hospital has not obtained a waiver of these covenants. Accordingly, all such debt has been recorded as a current liability.

## Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2013 compared to 2012 and 2011.

Table 2: Revenues and Expenses

| | 2013 | 2012 As restated | 2011 As restated |
|---|---|---|---|
| **Operating revenue** | | | |
| Net patient service revenue | $ 23,123,465 | $ 23,789,582 | $ 22,621,292 |
| Other operating revenue | 407,761 | 2,386,471 | 666,581 |
| Total operating revenues | 23,531,226 | 26,176,053 | 23,287,873 |
| **Operating expenses** | | | |
| Salaries and wages | 11,903,293 | 11,576,258 | 10,898,911 |
| Employee benefits | 3,382,585 | 3,485,345 | 4,170,977 |
| Physician services | 1,093,502 | 1,082,543 | 1,056,685 |
| Purchased services | 3,495,704 | 3,156,674 | 2,752,821 |
| Supplies | 1,601,478 | 1,779,244 | 1,510,200 |
| Maintenance and repairs | 1,037,976 | 693,434 | 531,689 |
| Utilities | 679,013 | 634,934 | 627,403 |
| Insurance | 317,124 | 349,893 | 336,326 |
| Miscellaneous | 610,103 | 630,523 | 469,372 |
| Depreciation | 1,386,096 | 1,325,337 | 1,330,663 |
| Total operating expenses | 25,506,874 | 24,714,185 | 23,685,047 |
| **Operating gain (loss)** | (1,975,648) | 1,461,868 | (397,174) |
| **Non-operating revenue (expenses)** | | | |
| Investment and other income, net | 96,342 | 292,595 | 72,582 |
| Interest expense | (640,371) | (726,798) | (696,388) |
| Total non-operating expenses | (544,029) | (434,203) | (623,806) |
| **Change in net position** | $ (2,519,677) | $ 1,027,665 | $ (1,020,980) |

## Net Patient Service Revenue

Gross patient service revenue decreased $188,363 in 2013, or 0.4%, from 2012. Inpatient revenue decreased $761,625 during 2013 while outpatient revenue decreased $266,283 and physician offices and other revenue increased $839,545. There was an overall rate increase of 3% in 2013. Also, outpatient procedures decreased 9.5% from the prior year while inpatient admissions decreased 20.6% from the prior year.

Net patient service revenue decreased $661,117, or 2.8%, from $23,789,582 in 2012 to $23,123,465 in 2013.

Total inpatient days decreased in 2013 as shown below in relation to 2012 and 2011:

Table 3

| Unit | 2013 Patient Days | 2012 Patient Days | 2011 Patient Days |
|---|---|---|---|
| Medical | 1,197 | 1,245 | 1,427 |
| Medical Beds | 44 | 58 | 91 |
| Surgical | 56 | 76 | 44 |
| Pediatrics | 10 | 26 | 50 |
| Swing Bed | 727 | 954 | 918 |
| Maternity | 211 | 266 | 262 |
| Nursery | 178 | 236 | 215 |
| Respite | - | 10 | - |
| Total | 2,423 | 2,871 | 3,007 |

## Deductions from Revenue

Contractual service adjustments, charity care and bad debts, expressed as a percentage of gross revenues, were 48% and 47% in 2013 and 2012, respectively.

Charity care deductions from revenue for 2013 increased to $500,141 from $451,169 in 2012. 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 as 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 2013 exceeded 2012 levels by $792,689, representing a 3.2% increase.

The largest increases in operating expenses in 2013 over 2012 level are reflected in salaries and wages, purchased services and maintenance and repairs.

## Non-operating Expenses

Non-operating expenses consist primarily of interest expense.

## Cash Flow

In January 2013 the Hospital received an incentive payment of approximately $1,500,000 for the implementation of electronic medical records. This led to positive cash flows from operations, offset by cash used for capital and related financing activities.

**Economic Factors that Will Affect the Future**

Looking forward to 2014 and beyond, we expect to see specific economic factors on the horizon that will impact the future of healthcare. Health Care Reform is here and will be a mainstay in our future. While the overall financial impact is still being fully determined, there have been policy changes due to the passing of the Patient Protection Affordable Care Act (PPACA or ACA) signed by President Obama in 2010.

One of the items currently on our radar pertains to the requirements of employee coverage and the introduction of the health insurance exchange. On the surface, the exchange would provide coverage and reimbursement to the ever growing uninsured population where we currently receive little or no reimbursement. The potential risk is that the new legal requirements for an employer offering insured coverage to its employees is too costly or their respective plans do not meet the requirements of ACA. This, unfortunately, may force smaller employers to drop their current plans. This will push the employee base to seek coverage in the exchange programs thus transitioning from a managed care plan to a Medicaid reimbursed based program. The risk lies in the transition from one plan to another. This will create a negative shift on reimbursement.

Another risk factor pertains to the recent issuance of GASB 67 and 68 (also see notes to the financial statements). These new standards will change the recognition and reporting requirements for public pensions (OPERS). The hospital will be required to report a portion of the unfunded liability on our financial statements. While the overall structure of the hospital remains unchanged, we will be required to recognize any shifts in the total net unfunded liability of OPERS. The financial impact of this "paper" entry will affect certain financial indicators.

**Contacting the Mark Milford Hicksville Joint Hospital District Management**

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

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

## ASSETS AND DEFERRED OUTFLOWS

| | 2013 | 2012 As restated |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 621,180 | $ 419,156 |
| Investments | 536,044 | 500,449 |
| Patient accounts receivable, net of allowance for doubtful accounts of $2,643,000 in 2013 and $2,385,000 in 2012 | 2,597,430 | 3,955,748 |
| Estimated third party settlement | 595,941 | - |
| Other receivables | 38,066 | 1,522,239 |
| Unconditional promises to give, current portion | 25,680 | 37,133 |
| Supplies inventory | 219,554 | 240,850 |
| Prepaid expenses | 183,362 | 147,533 |
| Total current assets | 4,817,257 | 6,823,108 |
| **Assets limited as to use** | | |
| Internally designated | 245,798 | 434,410 |
| Held by Foundation | 187,375 | 175,158 |
| Total assets limited as to use | 433,173 | 609,568 |
| **Capital assets, net** | 11,330,873 | 12,436,245 |
| **Unconditional promises to give, long term** | 38,948 | 42,194 |
| **Other** | 644,318 | 734,954 |
| **Deferred outflows** | 927,965 | 1,413,130 |
| Total assets and deferred outflows | $ 18,192,534 | $ 22,059,199 |

*See accompanying notes to consolidated financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

## LIABILITIES AND NET POSITION

| | 2013 | 2012 As restated |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 1,336,814 | $ 1,359,084 |
| Accrued expenses | 776,322 | 891,674 |
| Compensated absences | 528,938 | 641,441 |
| Estimated third party settlement | - | 182,708 |
| Current portion of long-term debt | 11,644,780 | 11,823,011 |
| Total current liabilities | 14,286,854 | 14,897,918 |
| **Long-term debt** | 953,188 | 1,164,395 |
| **Interest rate swap** | 927,965 | 1,413,130 |
| **Other long term liabilities** | - | 22,300 |
| Total liabilities | 16,168,007 | 17,497,743 |
| **Net position (Deficiency in net position)** | | |
| Net invested in capital assets | (1,267,095) | (551,161) |
| Restricted | 467,211 | 472,320 |
| Unrestricted | 2,824,411 | 4,640,297 |
| Total net position | 2,024,527 | 4,561,456 |
| Total liabilities and net position | $ 18,192,534 | $ 22,059,199 |

*See accompanying notes to consolidated financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 As restated |
|---|---|---|
| **Operating revenue** | | |
| Net patient service revenue | $ 23,123,465 | $ 23,789,582 |
| Other operating revenue | 407,761 | 2,386,471 |
| Total operating revenues | 23,531,226 | 26,176,053 |
| **Operating expenses** | | |
| Salaries and wages | 11,903,293 | 11,576,258 |
| Employee benefits | 3,382,585 | 3,485,345 |
| Physician services | 1,093,502 | 1,082,543 |
| Purchased services | 3,495,704 | 3,156,674 |
| Supplies | 1,601,478 | 1,779,244 |
| Maintenance and repairs | 1,037,976 | 693,434 |
| Utilities | 679,013 | 634,934 |
| Insurance | 317,124 | 349,893 |
| Miscellaneous | 654,351 | 661,706 |
| Depreciation and amortization | 1,386,096 | 1,325,337 |
| Total operating expenses | 25,551,122 | 24,745,368 |
| **Operating income (loss)** | (2,019,896) | 1,430,685 |
| **Non-operating revenues (expenses)** | | |
| Investment and other income, net | 123,338 | 188,782 |
| Interest expense | (640,371) | (726,798) |
| Total non-operating revenues (expenses) | (517,033) | (538,016) |
| **Change in net position** | (2,536,929) | 892,669 |
| **Net position, beginning of year** | 4,561,456 | 3,668,787 |
| **Net position, end of year** | $ 2,024,527 | $ 4,561,456 |

*See accompanying notes to consolidated financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 As restated |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from patients and third-party payors | $ 23,703,134 | $ 23,360,829 |
| Cash paid to suppliers for services and goods | (7,326,443) | (9,276,799) |
| Cash payments to employees for wages and benefits | (15,536,033) | (15,246,127) |
| Other operating revenue received | 407,761 | 2,386,471 |
| Net cash from operating activities | 1,248,419 | 1,224,374 |
| **Cash flows from capital and related financing activities** | | |
| Payments on long-term debt | (583,449) | (367,879) |
| New borrowings of long term debt | 28,129 | - |
| Acquisitions and construction of capital assets | (114,842) | (525,311) |
| Interest paid on capital related debt and capital leases | (640,371) | (718,394) |
| Net cash from capital and related financing activities | (1,310,533) | (1,611,584) |
| **Cash flows from investing activities** | | |
| Interest on investments | 123,338 | 188,782 |
| Other changes in investments | (23,080) | 10,568 |
| Net cash from investing activities | 100,258 | 199,350 |
| **Net change in cash and cash equivalents** | 38,144 | (187,860) |
| **Cash and cash equivalents, beginning of year** | 1,453,084 | 1,640,944 |
| **Cash and cash equivalents, end of year** | $ 1,491,228 | $ 1,453,084 |
| **Cash and cash equivalents include the following** | | |
| Cash and equivalents and investments | $ 1,157,224 | $ 919,605 |
| Assets limited as to use - cash and cash equivalents | 334,004 | 533,479 |
| Total cash and cash equivalents | $ 1,491,228 | $ 1,453,084 |
| **Reconciliation of operating income (loss) to net cash flows from operating activities** | | |
| Operating income (loss) | $ (2,019,896) | $ 1,430,685 |
| **Adjustments to reconcile operating income (loss) to net cash from operating activities** | | |
| Depreciation and amortization | 1,386,096 | 1,325,337 |
| Bad debt | 1,737,771 | 1,527,861 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (379,453) | (1,547,597) |
| Estimated third-party settlements | (778,649) | (409,017) |
| Other receivables | 1,589,508 | (1,473,484) |
| Supplies inventory | 21,296 | (62,714) |
| Prepaid expenses | (35,829) | 20,194 |
| Accounts payable | (22,270) | 597,633 |
| Accrued expenses | (227,855) | (162,824) |
| Other long term liabilities | (22,300) | (21,700) |
| Net cash from operating activities | $ 1,248,419 | $ 1,224,374 |
| **Supplemental disclosure of non cash activities** | | |
| Change in interest rate swap and deferred outflows | $ (485,165) | $ 66,299 |
| Financed fixed asset additions | $ 165,882 | $ - |

*See accompanying notes to consolidated financial statements.*

## 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

### Organization

The Mark Milford Hicksville Joint Township Hospital District and Subsidiary, Defiance County, doing business as Community Memorial Hospital (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 (GASB), 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 consolidation.

### Use of Estimates

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

### Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

### Federal Income Tax

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

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 position are available. Unrestricted resources are used only after restricted resources have been depleted.

Inventories

Inventories, which consist of medical and surgical supplies, are stated at the lower of cost (first-in, first-out) or market.

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.

Other Assets

Other assets consist of physician receivables and goodwill.

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.

## Net Position

Net position of the Organization is classified in three components. Net invested in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Organization. Restricted net position is related to donor restricted pledges and Foundation resources that will be used for capital asset acquisitions in future periods. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

## Operating Revenues and Expenses

The Organization's consolidated statement of operations and changes in net position 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 donations. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

## 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.

## 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 $25,551,000 and $24,745,000 during 2013 and 2012 respectively), an estimated $285,000 and $235,000 arose from providing services to charity patients in 2013 and 2012. 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 $355,000 in 2013 and $285,000 in 2012. These amounts are reported as net patient service revenue in the consolidated statement of operations and changes in net position.

Electronic Health Records (EHR) Incentive Payments

The Organization receives EHR incentive payments under the Medicare program. To qualify for these payments, the Organization must meet "meaningful use" criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30$^{th}$). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Organization's cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized approximately $0 and $1,499,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of the EHR reporting period in which compliance is received. EHR incentive income is included in other operating revenue in the consolidated statement of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Organization as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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 April 29, 2014.

## 2. CHANGE IN ACCOUNTING PRINCIPLES

During 2013, the Organization implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14, the Financial Reporting Entity, and 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The objective of the implementation is to improve financial reporting for a governmental financial reporting entity. As discussed in Note 16 to the financial statements, the Organization adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the financial statements for blended component units of primary governments that are business-type activities.

During 2013, the Organization also implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Debt issuance costs should now be recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized at issuance and amortized over the term of the related debt.

The 2012 financial statements have been retroactively restated to address the implementation of this new standard and the effects on the financial statements are detailed below:

| | As previously reported | Effects of implementation | As restated |
|---|---|---|---|
| Combined balance sheet: | | | |
| Deferred financing costs | $ 201,686 | $ (201,686) | $ - |
| Net position - unrestricted | $ 4,841,983 | $ (201,686) | $ 4,640,297 |
| | | | |
| Combined statement of operations and changes in net position: | | | |
| Interest | $ 735,202 | $ (8,404) | $ 726,798 |
| Change in net position | $ 884,265 | $ 8,404 | $ 892,669 |
| Net position at 1/1/2012 | $ 3,878,877 | $ (210,090) | $ 3,668,787 |
| Net position at 12/31/12 | $ 4,763,142 | $ (201,686) | $ 4,561,456 |
| | | | |
| Combined statement of cash flows: | | | |
| Interest paid on long term debt | $ 726,798 | $ (8,404) | $ 718,394 |

## 3. NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payors that provide for payment to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's billings at established rates for services and amounts reimbursed by third-party payors. The Organization estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions and other factors unique to the Organization. A summary of the basis of reimbursement with major payors follows:

*Medicare:* The Organization 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 Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary.

*Medicaid:* Medicaid services are reimbursed at prospectively determined rates except for capital. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary.

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

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization 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 2010 and with Medicaid through 2006. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2013 and 2012, which Hospital management believes will approximate final settlements after audit by the respective agencies.

Net patient service revenue consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Gross patient service revenue | | |
| Inpatient revenue | $ 9,411,044 | $ 10,172,669 |
| Outpatient revenue | 25,182,654 | 25,448,937 |
| Physician offices and other | 10,276,522 | 9,436,977 |
| Total gross patient service revenue | 44,870,220 | 45,058,583 |
| Deductions from revenue | | |
| Provision for contractual allowances | 19,508,843 | 19,289,971 |
| Provision for bad debt allowances | 1,737,771 | 1,527,861 |
| Provision for charity care | 500,141 | 451,169 |
| Total deductions from revenue | 21,746,755 | 21,269,001 |
| Total net patient service revenue | $ 23,123,465 | $ 23,789,582 |

## 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

| | 2013 | 2012 |
|---|---|---|
| Patient accounts receivable | $ 7,088,359 | $ 9,357,609 |
| Allowance for uncollectible accounts | (2,642,826) | (2,384,686) |
| Allowance for contractual adjustments | (1,848,103) | (3,017,175) |
| Net patient accounts receivable | $ 2,597,430 | $ 3,955,748 |

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, 2013 and 2012 was as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Accounts Receivable | Gross Revenue | Accounts Receivable | Gross Revenue |
| Medicare | 13% | 48% | 20% | 54% |
| Medicaid | 3% | 12% | 2% | 14% |
| Other third-party payors | 40% | 32% | 49% | 28% |
| Self-pay | 44% | 8% | 29% | 4% |
| | 100% | 100% | 100% | 100% |

## 5. PROMISES TO GIVE

Unconditional promises to give as of December 31, 2013 and 2012 follows:

| | 2013 | 2012 |
|---|---|---|
| Receivable in less than one year | $ 35,609 | $ 51,491 |
| Receivable in one to five years | 56,161 | 59,462 |
| Total unconditional promises to give | 91,770 | 110,953 |
| Less discounts to net present value | (5,599) | (5,183) |
| Less allowance for uncollectible promises | (21,543) | (26,442) |
| Net unconditional promises to give | $ 64,628 | $ 79,327 |

## 6. DEPOSITS AND INVESTMENTS

Cash deposits, assets whose use is limited, and investments of the Organization are composed of the following:

At December 31, 2013:

| | Fair value | Cost |
|---|---|---|
| Demand deposits and money market accounts | $ 887,435 | $ 887,435 |
| Certificates of deposit | 603,748 | 603,748 |
| Equities | 74,674 | 65,465 |
| Mutual funds | 24,495 | 24,116 |
| Total | $ 1,590,352 | $ 1,580,764 |

| | Fair value | Cost |
|---|---|---|
| Amounts summarized by fund-type | | |
| General funds: | | |
| Cash and investments | $ 1,157,224 | $ 1,157,224 |
| Assets limited as to use | 433,173 | 423,585 |
| | $ 1,590,397 | $ 1,580,809 |

At December 31, 2012:

| | Fair value | Cost |
|---|---|---|
| Demand deposits and money market accounts | $ 849,655 | $ 849,655 |
| Certificates of deposit | 603,429 | 603,429 |
| Equities | 51,197 | 45,440 |
| Mutual funds | 24,892 | 24,116 |
| Total | $ 1,529,173 | $ 1,522,640 |

| | Fair value | Cost |
|---|---|---|
| Amounts summarized by fund-type | | |
| General funds: | | |
| Cash and investments | $ 919,605 | $ 919,605 |
| Assets limited as to use | 609,568 | 603,035 |
| | $ 1,529,173 | $ 1,522,640 |

The Organization maintains its cash and 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.

| Deposits | 2013 | 2012 |
|---|---|---|
| Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) | $ 1,665,428 | $ 1,752,257 |
| Amount of deposits covered by federal depository insurance | 113,402 | 1,175,233 |
| Amounts of deposits uninsured | $ 1,552,026 | $ 577,024 |

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

At December 31, 2013:

| | Carrying Amount | Maturities Less than 1 Year | 1-5 years | >Than 5 Years |
|---|---|---|---|---|
| Certificates of deposit | $ 603,748 | $ 603,748 | $ - | $ - |
| Total | $ 603,748 | $ 603,748 | $ - | $ - |

At December 31, 2012:

| | Carrying Amount | Maturities Less than 1 Year | 1-5 years | >Than 5 Years |
|---|---|---|---|---|
| Certificates of deposit | $ 603,429 | $ 603,429 | $ - | $ - |
| Total | $ 603,429 | $ 603,429 | $ - | $ - |

*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.

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

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

## 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2:* Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Organization's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2013 and 2012.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

*Equities*: Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual Funds:* Valued at the daily closing prices as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

*Interest rate swap agreements*: Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves.

*Accounts payable, estimated third-party payor settlements and accrued expenses*: The carrying amount reported in the balance sheet for these items approximates its fair value due to their nearness to maturity.

*Debt*: The carrying amount reported on the balance sheet for debt approximates its fair value based upon the variable nature of a portion of its debt and borrowing rates currently available to the Organization.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Money market | $ 887,435 | $ - | $ - | 887,435 |
| Equities | | | | |
| Telecommunication | 22,176 | - | - | 22,176 |
| Energy | 4,861 | - | - | 4,861 |
| Financial services | 4,213 | - | - | 4,213 |
| Real estate | 39,190 | - | - | 39,190 |
| Utilities | 4,234 | - | - | 4,234 |
| Mutual Funds | | | | |
| Corporate bond | 12,517 | - | - | 12,517 |
| Large blend | 5,906 | - | - | 5,906 |
| Large growth | 6,072 | - | - | 6,072 |
| Total | $ 986,604 | $ - | $ - | $ 986,604 |
| Certificates of deposit | | | | 603,748 |
| Total investments | | | | $ 1,590,352 |

| Deferred outflows and liabilities: | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest rate swap agreement | $ - | $ 927,965 | $ - | $ 927,965 |

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Money market | $ 849,655 | $ - | $ - | $ 849,655 |
| Equities | | | | |
| Telecommunication | 15,782 | - | - | 15,782 |
| Commodity | 4,164 | - | - | 4,164 |
| Financial sector | 3,275 | - | - | 3,275 |
| Real estate | 24,296 | - | - | 24,296 |
| Health care | 3,680 | - | - | 3,680 |
| Mutual Funds | | | | |
| Corporate bond | 12,683 | - | - | 12,683 |
| Large blend | 6,079 | - | - | 6,079 |
| Large growth | 6,130 | - | - | 6,130 |
| Total | $ 925,744 | $ - | $ - | $ 925,744 |
| Certificates of deposit | | | | 603,429 |
| Total investments | | | | $ 1,529,173 |

| Deferred outflows and liabilities: | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest rate swap agreement | $ - | $ 1,413,130 | $ - | $ 1,413,130 |

## 8. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2013:

| 2013 | 12/31/2012 | Increases | Decreases | Transfers | 12/31/2013 |
|---|---|---|---|---|---|
| Land | $ 176,778 | $ - | $ - | $ - | $ 176,778 |
| Construction in progress | 16,610 | 30,136 | - | - | 46,746 |
| Land improvements | 329,346 | - | - | - | 329,346 |
| Building and equipment | 27,521,870 | 250,588 | - | - | 27,772,458 |
| Total capital assets | 28,044,604 | 280,724 | - | - | 28,325,328 |
| Less accumulated depreciation | | | | | |
| Land improvements | (295,930) | (8,137) | - | - | (304,067) |
| Building and equipment | (15,312,429) | (1,377,959) | - | - | (16,690,388) |
| Total accumulated depreciation | (15,608,359) | (1,386,096) | - | - | (16,994,455) |
| Total capital assets, net | $ 12,436,245 | $ (1,105,372) | $ - | $ - | $ 11,330,873 |

Capital assets consist of the following at December 31, 2012:

| 2012 | 12/31/2011 | Increases | Decreases | Transfers | 12/31/2012 |
|---|---|---|---|---|---|
| Land | $ 176,778 | $ - | $ - | $ - | $ 176,778 |
| Construction in progress | 1,766,632 | - | - | (1,750,022) | 16,610 |
| Land improvements | 329,346 | - | - | - | 329,346 |
| Building and equipment | 25,246,537 | 525,311 | - | 1,750,022 | 27,521,870 |
| Total capital assets | 27,519,293 | 525,311 | - | - | 28,044,604 |
| Less accumulated depreciation | | | | | |
| Land improvements | (285,580) | (10,350) | - | - | (295,930) |
| Building and equipment | (13,997,442) | (1,314,987) | - | - | (15,312,429) |
| Total accumulated depreciation | (14,283,022) | (1,325,337) | - | - | (15,608,359) |
| Total capital assets, net | $ 13,236,271 | $ (800,026) | $ - | $ - | $ 12,436,245 |

# 9. LONG-TERM DEBT

Long term debt consists of the following at December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| 2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (0.22% at December 31, 2013), due December 1, 2037, mandatory annual redemption beginning December 1, 2008, in installments ranging from $95,000 to $475,000 plus interest | $ 5,960,000 | $ 6,085,000 |
| 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 | 5,303,000 | 5,431,000 |
| 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 4.77%, secured by related equipment and software | 1,153,867 | 1,471,406 |
| Vehicle Loan- monthly principal and interest payments of $1,231 through October 2015. Interest at 4.75%, secured by the vehicle. | 25,650 | - |
| Mammography lease- monthly principal and interest payments of $4,011 through May 2017. Interest at 3.25%, secured by the equipment leased. | 155,451 | - |
| Total | 12,597,968 | 12,987,406 |
| Less current portion | (11,644,780) | (11,823,011) |
| Long-term debt | $ 953,188 | $ 1,164,395 |

| | Revenue Bonds Series 2005 | Revenue Refunding 2007 Bonds | EMR Financing | Vehicle Loan | Mammography Lease | Total |
|---|---|---|---|---|---|---|
| December 31, 2012 | $ 6,085,000 | $ 5,431,000 | $ 1,471,406 | $ - | $ - | $ 12,987,406 |
| Additional Borrowing | - | - | - | 28,129 | 165,882 | 194,011 |
| Payments | 125,000 | 128,000 | 317,539 | 2,479 | 10,431 | 583,449 |
| December 31, 2013 | $ 5,960,000 | $ 5,303,000 | $ 1,153,867 | $ 25,650 | $ 155,451 | $ 12,597,968 |
| Amounts due within one year | $ 5,960,000 | $ 5,303,000 | $ 324,213 | $ 13,840 | $ 43,727 | $ 11,644,780 |

| | Revenue Bonds Series 2005 | Revenue Refunding 2007 Bonds | EMR Financing | Total |
|---|---|---|---|---|
| December 31, 2011 | $ 6,200,000 | $ 5,554,000 | $ 1,601,285 | $ 13,355,285 |
| Additional Borrowing | - | - | - | - |
| Payments | 115,000 | 123,000 | 129,879 | 367,879 |
| December 31, 2012 | $ 6,085,000 | $ 5,431,000 | $ 1,471,406 | $ 12,987,406 |
| Amounts due within one year | $ 6,085,000 | $ 5,431,000 | $ 307,011 | $ 11,823,011 |

Scheduled payments on long-term debt are as follows:

Using rates as of December 31, 2013, 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.

| | Series 2005 Bonds | | | 2007 Refunding Bonds | | EMR Financing | | Vehicle Loan | | Mammography Lease | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year ending December 31. | Principal | Interest | Interest Rate Swap, Net | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2014 | $ 5,960,000 | $ 271,318 | $ 1,186,292 | $ 5,303,000 | $ 218,749 | $ 324,213 | $ 56,595 | $ 13,840 | $ 931 | $ 43,727 | $ 4,405 | $ 13,383,070 |
| 2015 | - | - | - | - | - | 342,378 | 38,430 | 11,811 | 264 | 45,170 | 2,962 | 441,015 |
| 2016 | - | - | - | - | - | 361,561 | 19,246 | - | - | 46,660 | 1,472 | 428,939 |
| 2017 | - | - | - | - | - | 125,714 | 2,131 | - | - | 19,894 | 162 | 147,901 |
| 2018-2037 | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | $ 5,960,000 | $ 271,318 | $ 1,186,292 | $ 5,303,000 | $ 218,749 | $ 1,153,866 | $ 116,402 | $ 25,651 | $ 1,195 | $ 155,451 | $ 9,001 | $ 14,400,925 |

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

The Organization is required to meet certain financial covenants including debt service and liquidity requirements. These covenants are required to be tested quarterly. At December 31, 2013, the Organization's debt service requirement was not met and the Organization has not obtained a waiver. Accordingly, the total amount of bonds has been classified as current portion of long-term debt in the balance sheet.

During 2005, the Organization 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 2037. The adjustable interest rate at December 31, 2013 was 0.22%.

The debt is collateralized by total revenues and a letter of credit issued by Fifth Third Bank. The letter of credit expires January 20, 2015. In the event of a draw on the letter of credit due to troubled remarketing of the bonds by the bank, the Organization has until the expiration date of the letter of credit to reimburse the bank. The failed financial covenant results in the corresponding debt being classified as current within the balance sheet. Effective September, 2013, the Organization's days cash on hand requirement was replaced by a liquidity requirement.

During 2007, the Organization obtained $6,000,000 of Ohio Hospital Facilities Revenue Refunding Bonds (2007 Bonds). The bonds refunded a portion of the series 2005 bond issue. The bonds are payable in varying annual installments beginning December 2008 and mature December 2037. The bonds bear interest at an annual fixed rate of 4.125%. The bonds are collateralized by total revenues.

During 2011, the Organization 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. The lease is secured by the equipment with a net book value of $1,045,343 at December 31, 2013.

During 2013, the Organization obtained a loan in the amount of $28,129 to purchase a vehicle. The obligation is payable monthly beginning in October 2013 through October 2015. Total principal and interest payments are $1,231 per month. The loan is secured by the vehicle purchased with a net book value of $24,613.

During 2013, the Organization entered into a lease agreement to finance some mammography equipment. The total obligation was $165,882. The obligation is payable monthly beginning October 2013 through May 2017. Total principal and interest payments are $4,011 per month. The lease is secured by the equipment with a net book value of $157,588 at December 31, 2013.

At December 31, 2013 and 2012, the carrying value of equipment under capital lease is as follows:

| | 2013 | 2012 |
|---|---|---|
| Cost of equipment under capital lease | $ 1,767,167 | $ 1,601,285 |
| Less accumulated amortization | 564,236 | 186,817 |
| Net carrying value | $ 1,202,931 | $ 1,414,468 |

## 10. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

Contract

The Hospital has one interest rate swap agreement in effect at December 31, 2013 and 2012 for the 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, 2013 are as follows.

| Associated Bond Issue | Notional Amount | Effective Date | Fixed Rate | Variable Rate | Fair Value | Termination Date | Counterparty Credit Rating |
|---|---|---|---|---|---|---|---|
| Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005 | $ 5,905,000 | 1/1/2008 | 4.460% | 0.22% | $ (927,965) | January 6, 2021 | A3, A-, A |

As of December 31, 2013, 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), A- by Standard and Poor's (S&P), and A by Fitch Ratings (Fitch).

Termination Risk

The Organization 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 Organization would be liable to the counterparty for a payment equal to the swap's fair value.

Basis Risk

The swap exposes the Organization 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 4.60% for 2013. As of December 31, 2013, the variable rate on the Hospital's Series 2005 bonds was .22% whereas the variable rate from the counterparty was .06%.

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:

| | 2013 | 2012 |
|---|---|---|
| | Assets | Assets |
| Deferred outflows | $ 927,965 | $ 1,413,130 |
| | Liabilities | Liabilities |
| Interest rate swap | $ 927,965 | $ 1,413,130 |

## 11. 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:

| | |
|---|---|
| 2014 | $ 213,050 |
| 2015 | 214,946 |
| | $ 427,996 |

Total rental expense for operating leases, including those with terms of one year or less, for 2013 and 2012 was $236,966 and $546,992, respectively and is included within purchased services on the statements of operations and changes in net position.

## 12. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Payroll and related items | $ 505,672 | $ 481,833 |
| Self-insured benefits | 101,286 | 101,323 |
| Health insurance claims | 169,364 | 308,518 |
| Total salaries, wages and related accruals | $ 776,322 | $ 891,674 |

## 13. PENSION PLAN

The Organization 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.

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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issue a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013 and 2012, state and local employers contributed at a rate of 14.0% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. 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 was 1.0% and 4.0% during calendar year 2013 and 2012, respectively. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2%, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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:

| Year | Contribution |
|---|---|
| 2013 | $ 1,493,031 |
| 2012 | $ 1,507,623 |
| 2011 | $ 1,414,366 |

Hospital contributions made to fund post-employment benefits approximated $107,000, $431,000, and $404,000 for 2013, 2012 and 2011, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under Senate Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

## 14. 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 $75,000 per employee per annum up to an aggregate amount of $1,000,000. Expenses charged to operations, including an estimate of incurred but unreported claims, totaled $1,576,041 and $1,465,331 for 2013 and 2012, respectively.

## 15. AFFILIATION

On July 23, 2003, the Organization entered into an affiliation agreement with IOM Health System, LPA d/b/a Lutheran Health Network. The agreement was restated in September 2013. 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 renewable for three year periods.

## 16. 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, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 252,694 | $ 297,162 |
| Other | 187,375 | 175,158 |
| Total assets | $ 440,069 | $ 472,320 |
| **Liabilities** | | |
| Current liabilities | $ 64,628 | $ 79,327 |
| Total liabilities | 64,628 | 79,327 |
| **Net position** | | |
| Restricted | 375,441 | 392,693 |
| Total liabilities and net assets | $ 440,069 | $ 472,020 |
| **Operating Expenses** | $ 132,092 | $ 132,002 |
| **Non-operating gains** | 114,840 | 266,698 |
| **Excess revenues over expenses (expenses over revenues)** | $ 17,252 | $ (134,696) |
| **Cash provided by (used in):** | | |
| Operating activities | $ (102,623) | $ (268,431) |
| Investing activities | (23,080) | 10,568 |
| Financing activities | 114,840 | 132,002 |
| Total | (10,863) | (125,861) |
| **Cash - beginning of year** | 99,069 | 224,930 |
| **Cash - end of year** | $ 88,206 | $ 99,069 |

## 17. MANAGEMENT'S PLANS

As noted in Note 9, the Organization was not in compliance with certain covenants at December 31, 2013. As a result, related debt was classified to current liabilities. Total net position of the Organization decreased approximately $2.5 million. The Organization is required to test and meet certain financial covenants on a quarterly basis. It does not appear that the Organization will meet these financial covenants on a quarterly basis in 2014. These factors could be indicative of the entity's inability to continue as a going concern.

The Organization plans to return to profitability primarily through a reorganization of the executive team, including the replacement of the chief executive officer and chief financial officer. A renewed focus on key lines of service, community needs, staffing and changing healthcare regulations and reimbursement will affect most areas of hospital operations.

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.

## 18. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

**GASB Statement No. 69**, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

**GASB Statement No. 70**, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

**GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

CPAS / ADVISORS

blue

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

blueandco.com

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Governors
Mark Milford Hicksville Joint Township Hospital District and Subsidiary
Hicksville, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of the business-type activities of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), as of and for the year ended December 31, 2013, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated April 29, 2014.

Our report included an emphasis-of-matter paragraph stating that the Organization adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our opinion is not modified with respect to these matters.

Our report also included an emphasis-of-matter paragraph regarding uncertainty about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## *Internal Control Over Financial Reporting*

As part of our financial statement audit, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the consolidated financial statements, but not to the extent necessary to opine on the effectiveness of the Organization's internal control. Accordingly, we have not opined on it.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* (continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Organization's financial statements. We consider the deficiencies described in 2013-1 through 2013-3 in the accompanying schedule of audit findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in 2013-4 in the accompanying schedule of audit findings and responses to be a significant deficiency.

### *Compliance and Other Matters*

As part of obtaining reasonably assuring whether the Organization's consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 we must report under *Government Auditing Standards*.

### *Management's Response to Finding*

The Organization's response to the finding identified in our audit is described in the accompanying schedule of audit findings and responses. We did not audit the Organization's response, and accordingly, we express no opinion on it.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* (continued)**

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bennett & Co., LLC

Columbus, Ohio
April 29, 2014

## Mark Milford Hicksville Joint Hospital District and Subsidiary
## Schedule of Prior Year Audit Findings and Responses
## Year Ended December 31, 2012

**2013-1: Expense Recognition (Material Weakness)**

Condition: The Hospital's accounting system had failed to include the last two days of supplies expense for 2013.

Criteria: Completeness of expenses is essential for the financials to be free of material misstatement.

Cause: During an update to a software program that integrates the general ledger with other modules, a checkbox in the application that allows for receiving transactions was not checked.

Effect: Approximately $7,000 in expenses were not accrued as of December 31, 2013. We noted that management corrected and accrued for the 2013 expenses in March 2014.

Recommendation: A mitigating control that would identify this condition in a timely manner would be the review of departmental expenses by managers on a timely basis. In this case, management discovered the understatement when actual vs. budget reports were distributed to departmental managers. However, the error could have been detected on a timelier basis through the timely distribution and review of management reports.

Management's response: Departmental managers will receive the necessary reports for review on a monthly basis.

**2013-2: OPERS Accrual (Material Weakness)**

Condition: The Hospital overstated liabilities and related benefits expense by accruing double the December 2013 OPERS liability.

Criteria: Accruals and liabilities should only reflect actual obligations of the Hospital.

Cause: The OPERS accrual was recorded in both accounts payable and accrued expenses.

Effect: Approximately $107,000 of accrued liabilities and benefits expense were overstated.

Recommendation: We recommend that management perform a reasonableness test of accruals and accounts payable at period end.

Management's response: Management will review accruals at period end for reasonableness.

## 2013-3: Capital Lease Accounting (Material Weakness)

Condition: The Hospital entered into a lease a 2013. The Hospital treated this lease as operating, however the lease is considered to be capital based on the net present value of the lease payments being greater than 90% of the fair market value of the leased equipment.

Criteria: Leases should be evaluated for operating versus capital and recorded appropriately.

Cause: The lease had not been evaluated for operating versus capital treatment.

Effect: The lease had been recorded as operating, while it is considered capital. Fixed assets and obligations were understated. Rental expense was overstated while depreciation and amortization was understated.

Recommendation: We recommend that management review leases and evaluate for operating versus capital and record appropriately.

Management's response: Management will review leases for correct determination.

## 2013-4: Compliance with Credit Card Policy (Significant Deficiency)

Condition: During our audit, we noted that credit card purchases had been reviewed and or approved by managers not specified in the Hospital's credit card policy.

Criteria: The review and approval of credit card purchases should be centralized and performed by personnel specified in the policy.

Cause: Monthly credit card statements were reviewed by management personnel not specified in the credit card use policy.

Effect: An increased risk of unauthorized purchases.

Recommendation: We recommend that credit card purchases be reviewed and approved by the Hospital CFO in accordance with the Hospital's credit card policy.

Management's response: CFO reviews and approvals of credit card use will be performed monthly.

## Mark Milford Hicksville Joint Hospital District and Subsidiary
## Schedule of Prior Audit Findings and Responses
## Year Ended December 31, 2012

**2012-1: Bank Account Reconciliations (Material Weakness)**

Condition: During our audit, we noted that bank account reconciliations had not been performed consistently throughout the year.

Criteria: The monthly reconciliation process is necessary to appropriately state cash balances each period. Errors are likely if the control is not performed.

Cause: The Hospital incurred personnel turnover in 2012. As a result of this turnover, there were not sufficient resources to perform daily duties.

Effect: During the year, the potential impact is a misstatement of balances.

Recommendation: We recommend the bank reconciliation process be performed monthly and monitoring activities be evidenced by reviewer sign offs on the reconciliation each month.

Management's response: Reconciliations will be performed and reviewed monthly as part of the month-end close process.

# Dave Yost • Auditor of State

**MARK MILFORD HICKSVILLE JOINT 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**
**JUNE 10, 2014**

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
**www.ohioauditor.gov**