

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

**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Mark Milford Hicksville Joint Township Hospital District, Defiance County, prepared by Blue & Co., LLC, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 4, 2008

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

**TABLE OF CONTENTS  
DECEMBER 31, 2007 AND 2006**

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (Unaudited).....	i
<b>Financial Statements</b>	
Combined Balance Sheets.....	3
Combined Statements of Revenues, Expenses and Changes in Net Assets .....	5
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements .....	7
<b>Additional Information</b>	
Schedule of Expenditures of Federal Awards – Year Ended December 31, 2007 .....	22
Report of Independent Auditors 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> .....	23
Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	25
Schedule of Findings and Questioned Costs – Year Ended December 31, 2007.....	27
Schedule of Prior Audit Findings – Year Ended December 31, 2006.....	28
Schedule of Audit Findings and Responses – Year Ended December 31, 2007.....	29

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Mark Milford Hicksville Joint Township Hospital District and subsidiaries (the Organization) as of December 31, 2007 and 2006, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Mark Milford Hicksville Joint Township Hospital District and subsidiaries as of December 31, 2007 and 2006, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying combined financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in footnote 13 to the combined financial statements, the Organization has suffered a loss from operations and did not meet certain covenants related to the bonds outstanding at December 31, 2007 (footnote 7). As a result, all such debt has been classified as a current liability. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of Mark Milford Hicksville Joint Township Hospital District and subsidiaries' 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The additional information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiaries. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic combined financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiaries. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

The Management Discussion and Analysis on pages i through v is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods and measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

September 22, 2008



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006 (UNAUDITED)

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The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiaries (the Organization) includes Community Memorial Hospital Foundation, Inc. (the Foundation) and Community Memorial Hospital Auxiliary (the Auxiliary). The intent of this discussion and analysis is to provide further information on the Organization's financial performance as a whole; readers should also review the notes to the basic combined financial statements and combined financial statements to enhance their understanding of the Organization's financial performance.

### Financial Highlights

- The Organization has suffered a loss from operations and did not meet certain covenants related to the bonds outstanding at December 31, 2007 (footnote 7). As a result, all such debt has been classified as a current liability. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in footnote 13 of the financial statements.
- Total assets decreased \$3,077,072 from 2006. Net accounts receivable increased \$503,654. Net days revenue in accounts receivable was 72 days at December 31, 2007, compared to 70 days at December 31, 2006. The most significant change in assets relates to assets limited as to use as a result completing the Hospital expansion project.
- Total liabilities decreased \$553,460 which relates primarily to vendor payables.
- Net patient service revenue increased \$2,127,904, or 17%, over 2006. Total operating expenses increased \$3,610,199, or 29% over 2006. There was an operating loss in 2007 of \$1,287,624 compared to an operating gain of \$194,671 in 2006.
- Net cash used by operating activities was approximately \$518,000 in 2007 compared to a source of cash of \$217,000 in 2006.

### Overview of the Combined Financial Statements

This annual report consists of the combined financial statements and notes to those statements. These statements are organized to present the Organization as a whole. Community Memorial Hospital (the Hospital) is organized as a Joint Township Hospital District under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation.

While the Joint Township Hospital District is empowered with the approval of the electorate to levy property taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no tax revenues for its operations.

The Board of Governors, appointed by the Joint Township Board of Trustees, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide health care services to the citizens of the contiguous townships of Mark, Milford and Hicksville.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2006 (UNAUDITED)**

The Combined Balance Sheets, Combined Statements of Revenue, Expenses and Changes in Net Assets and Cash Flows, provide an indication of the Organization's financial health. The Combined Balance Sheet includes the assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted because of loan covenants or other purposes. The Combined Statements of Revenue, Expenses and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Combined Statement of Cash Flows reports the sources and uses of cash during the year.

**Financial Analysis of the Organization**

The net assets decreased from \$9,199,625 in 2006 to \$6,676,013 in 2007. Table 1 provides a summary of the Organization's balance sheet for 2007 compared to 2006 and 2005.

Table 1: Net Assets

	2007	2006	2005
<b>Assets</b>			
Current assets	\$ 4,782,306	\$ 3,697,737	\$ 3,749,720
Assets whose use is limited, net of current portion	840,787	4,955,500	13,340,586
Capital assets	15,839,063	15,880,789	5,541,645
Other	284,343	289,545	243,288
<b>Total assets</b>	<b>21,746,499</b>	<b>24,823,571</b>	<b>22,875,239</b>
<b>Liabilities</b>			
Current liabilities	14,528,967	3,023,946	1,859,785
Interest rate swap	541,519	-	-
Long-term	-	12,600,000	12,600,000
<b>Total liabilities</b>	<b>15,070,486</b>	<b>15,623,946</b>	<b>14,459,785</b>
<b>Net assets</b>			
Restricted by donors for specific uses	22,525	84,658	-
Invested in capital assets, net of related debt	3,239,063	3,280,789	3,936,059
Unrestricted	3,414,425	5,834,178	4,479,395
<b>Total net assets</b>	<b>\$ 6,676,013</b>	<b>\$ 9,199,625</b>	<b>\$ 8,415,454</b>

**Capital Assets**

Capital assets decreased from \$15,880,789 in 2006 to \$15,839,063 in 2007. The decrease relates primarily to \$1,619,333 in capital additions, offset by \$1,652,322 in depreciation expense and a loss on disposal of capital assets of \$8,737.

**Debt**

At December 31, 2007 the Hospital was not in compliance with certain provisions of bond covenants which require debt service coverage to be greater than 1.25 to 1 and net assets to be greater than \$8,000,000. The Hospital has not obtained a waiver of these covenants. Accordingly, all such debt has been recorded as a current liability.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2006 (UNAUDITED)**

At December 31, 2007, the Organization had \$12,600,000 of debt outstanding. The Hospital refunded \$6,000,000 of its series 2005 bonds in 2007. The Hospital manages a portion of its interest rate risk through a pay fixed interest rate swap on \$6,600,000 of its bonds.

**Revenues and Expenses**

Table 2 shows the changes in revenues and expenses for 2007 compared to 2006 and 2005.

Table 2:  
Revenues and Expenses

	2007	2006	2005
<b>Operating revenue</b>			
Net patient service revenue	\$ 14,569,306	\$ 12,441,402	\$ 11,045,596
<b>Operating expenses</b>			
Salaries and wages	6,016,600	5,131,004	4,759,945
Purchased services	1,583,081	1,227,411	1,168,398
Employee benefits	1,998,402	1,580,038	1,495,410
Physician offices	1,130,199	817,614	591,491
Physician services	1,087,136	979,469	863,359
Depreciation and amortization	1,652,322	807,562	654,947
Supplies	1,076,810	851,120	721,354
Maintenance and repairs	412,277	272,546	250,375
Utilities	464,255	239,601	188,857
Miscellaneous	190,075	136,751	202,925
Insurance	245,773	203,615	185,870
Total operating expenses	<u>15,856,930</u>	<u>12,246,731</u>	<u>11,082,931</u>
<b>Operating income (loss)</b>	(1,287,624)	194,671	(37,335)
<b>Non-operating revenue (expenses)</b>			
Investment and other income, net	466,211	426,953	144,731
Changes in unrealized gains and losses	(521,479)	(29,962)	(61,239)
Interest expense	(639,201)	(65,435)	(51,953)
Total non-operating revenues (expenses)	<u>(694,469)</u>	<u>331,556</u>	<u>31,539</u>
<b>Revenues over (under) expenses</b>	(1,982,093)	526,227	(5,796)
<b>Other changes in net assets</b>			
Interest rate swap	(541,519)	-	-
<b>Change in net assets</b>	<u>\$ (2,523,612)</u>	<u>\$ 526,227</u>	<u>\$ (5,796)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2006 (UNAUDITED)**

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**Net Patient Service Revenue**

Compared to 2006, net patient service revenue increased \$2,127,904 or 17%.

Gross patient service revenue increased \$3,103,000 or 18%. Inpatient revenue increased approximately \$689,500 during 2007 while outpatient revenue increased approximately \$2,413,500, consistent with the industry trend of shifting healthcare services to an outpatient basis.

While net revenue increased 17% during 2007, expenses increased 29%. The Hospital had 148 full-time equivalent employees in 2007 representing an increase of 18 over 2006. Wage increases continued to put pressure on the Hospital in 2007.

Total patient days increased in 2007 as shown below in relation to 2006 and 2005:

Table 3

Unit	2007 Patient Days	2006 Patient Days	2005 Patient Days
Medical	1,242	1,015	1,127
Surgical	53	51	24
Pediatrics	34	30	39
Swing Bed	876	866	736
Maternity	241	210	161
Nursery	185	162	131
Total	2,631	2,334	2,218

**Deductions from Revenue**

Contractual service adjustments, expressed as a percentage of gross revenues, were 28% in 2007, compared to 26% in 2006.

Charity care for 2007 increased to \$348,942 from \$241,770 in 2006. 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 SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2006 (UNAUDITED)**

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**Operating Expenses**

Total operating expenses in 2007 exceeded 2006 levels by \$3,610,199, representing a 29% increase.

The largest increases in operating expenses in 2007 over 2006 level are reflected in salaries and wages, employee benefits and depreciation and amortization.

**Non-operating Revenues (Expenses)**

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

**Other Changes in Net Assets**

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

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

The Board of Trustees approved the 2008 Hospital operating budget at their November 2007 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%.

**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 Organization'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 SUBSIDIARIES**

COMBINED BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

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**ASSETS**

	2007	2006
<b>Current assets</b>		
Cash and cash equivalents	\$ 652,342	\$ 440,949
Investments	169,620	253,132
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$508,000 in 2007 and \$890,000 in 2006	2,876,615	2,372,961
Estimated third-party settlements	568,110	185,000
Other receivables, current portion	23,132	55,178
Unconditional promises to give, current portion	20,116	26,021
Supplies inventory	237,013	150,999
Prepaid expenses	132,741	110,902
Assets limited as to use - current portion	102,617	102,595
Total current assets	4,782,306	3,697,737
<b>Assets limited as to use</b>		
Internally designated	943,404	2,547,151
Trustee held	-	2,510,944
Less current	(102,617)	(102,595)
Total assets limited as to use	840,787	4,955,500
<b>Capital assets, net</b>	15,839,063	15,880,789
<b>Unconditional promises to give, long term</b>	40,639	38,137
<b>Other</b>	243,704	251,408
	16,123,406	16,170,334
Total assets	\$ 21,746,499	\$ 24,823,571

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*See accompanying notes to combined financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

COMBINED BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

## LIABILITIES AND NET ASSETS

	2007	2006
<b>Current liabilities</b>		
Line of credit	\$ 194,385	\$ 350,000
Accounts payable	707,915	1,858,318
Accrued expenses	601,824	474,599
Compensated absences	424,843	341,029
Current portion of long-term debt	12,600,000	-
Total current liabilities	14,528,967	3,023,946
<b>Interest rate swap</b>	541,519	-
<b>Long-term debt</b>	-	12,600,000
Total liabilities	15,070,486	15,623,946
 <b>Net assets</b>		
Restricted by donors for specific uses	22,525	84,658
Invested in capital assets, net of related debt	3,239,063	3,280,789
Unrestricted	3,414,425	5,834,178
Total net assets	6,676,013	9,199,625
 Total liabilities and net assets	\$ 21,746,499	\$ 24,823,571

*See accompanying notes to combined financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## COMBINED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Operating revenue</b>		
Net patient service revenue	\$ 14,569,306	\$ 12,441,402
<b>Operating expenses</b>		
Salaries and wages	6,016,600	5,131,004
Employee benefits	1,998,402	1,580,038
Physician services	1,087,136	979,469
Purchased services	1,583,081	1,227,411
Supplies	1,076,810	851,120
Maintenance and repairs	412,277	272,546
Utilities	464,255	239,601
Insurance	245,773	203,615
Miscellaneous	190,075	136,751
Depreciation and amortization	1,652,322	807,562
Physician offices	1,130,199	817,614
Total operating expenses	15,856,930	12,246,731
<b>Operating income (loss)</b>	(1,287,624)	194,671
<b>Non-operating revenues (expenses)</b>		
Investment and other income, net	466,211	426,953
Interest expense	(639,201)	(65,435)
Change in unrealized gains and losses	(521,479)	(29,962)
Total non-operating revenues (expenses)	(694,469)	331,556
<b>Revenues over (under) expenses</b>	(1,982,093)	526,227
<b>Other changes in net assets</b>		
Change in interest rate swap	(541,519)	-
Change in net assets	(2,523,612)	526,227
<b>Net assets, beginning of year</b>	9,199,625	8,673,398
<b>Net assets, end of year</b>	\$ 6,676,013	\$ 9,199,625

*See accompanying notes to combined financial statements.*



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 13,682,542	\$ 11,695,433
Cash paid to suppliers for services and goods	(6,396,958)	(4,861,790)
Cash payments to employees for services	(7,803,963)	(6,616,880)
Net cash from operating activities	(518,379)	216,763
<b>Cash flows from capital and related financing activities</b>		
Borrowings on line of credit	(155,615)	350,000
Proceeds from bond issuance	6,000,000	-
Bond payments	(6,000,000)	-
Acquisitions and construction of capital assets, net	(2,618,347)	(10,149,233)
Interest paid on capital related debt and capital leases	(639,201)	(65,435)
Net cash from capital and related financing activities	(3,413,163)	(9,864,668)
<b>Cash flows from investing activities</b>		
Other changes in investments and assets whose use is limited, net	410,667	10,221,708
Interest on investments	269,834	285,302
Other changes	196,377	305,485
Net cash from investing activities	876,878	10,812,495
<b>Net change in cash and cash equivalents</b>	(3,054,664)	1,164,590
<b>Cash and cash equivalents, beginning of year</b>	3,707,006	2,542,416
<b>Cash and cash equivalents, end of year</b>	\$ 652,342	\$ 3,707,006
<b>Cash and cash equivalents include the following</b>		
Cash and equivalents	\$ 652,342	\$ 440,949
Assets limited as to use - cash and cash equivalents		
Funds available for future construction and equipment	-	3,266,057
Total cash and cash equivalents	\$ 652,342	\$ 3,707,006
<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>		
Operating income (loss)	\$ (1,287,624)	\$ 194,671
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities</b>		
Depreciation and amortization	1,652,322	807,562
Loss on disposal of capital assets	8,737	1,541
Provision for bad debts	874,350	790,481
Changes in operating assets and liabilities		
Patient accounts receivable	(1,378,004)	(1,247,842)
Estimated third-party settlements	(383,110)	(288,608)
Other receivables	43,153	26,813
Supplies inventory	(86,014)	(46,789)
Prepaid expenses	(21,839)	60,179
Accounts payable	(151,389)	(175,407)
Accrued expenses	211,039	94,162
Net cash from operating activities	\$ (518,379)	\$ 216,763
<b>Supplemental disclosure of cash flow information</b>		
Building purchases included in accounts payable at December 31	\$ -	\$ 999,014
Unconditional promises to give made by donors as of December 31	\$ 60,755	\$ 64,158

*See accompanying notes to combined financial statements.*

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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

#### Organization

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

#### Blended Component Units

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 combined financial statements include the accounts of Community Memorial Hospital Foundation, Inc. (the Foundation) and Community Memorial Hospital Auxiliary (the Auxiliary) as blended component units. The Foundation and the Auxiliary exist 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. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Cash Equivalents

Cash equivalents include all highly liquid investments purchased with original maturities of six months or less, excluding arrangements under trust agreements. Cash paid for interest in 2007 was \$639,201. Cash paid for interest in 2006 was \$65,435, net of amount capitalized of \$383,411.

### 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.

### 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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. Restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Organization. Restricted assets at December 31, 2007 are designated for capital improvements.

### Operating Revenues and Expenses

The Organization's combined 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, unrealized gains/losses on investments, donations and interest expense. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### Restricted Resources

It is the Hospital's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted resources are used only after unrestricted resources have been depleted.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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 in both 2007 and 2006.

### 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; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Investments and Assets Limited as to Use

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

### Inventories

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

### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$349,000 and \$242,000 in 2007 and 2006, respectively.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 2. NET PATIENT SERVICE REVENUE

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

*Medicare* The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at the approximate cost plus 1% of providing those services. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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

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

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2006 and with Medicaid through 2001. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2007 and 2006, which Hospital management believes will approximate final settlements after audit by the respective agencies.

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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**3. PATIENT ACCOUNTS RECEIVABLE**

The details of patient accounts receivable are set forth below:

	<u>2007</u>	<u>2006</u>
Patient accounts receivable	4,308,597	4,084,550
Allowance for uncollectible accounts	(507,661)	(890,026)
Allowance for contractual adjustments	(924,321)	(821,563)
Net patient accounts receivable	<u>\$ 2,876,615</u>	<u>\$ 2,372,961</u>

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

	<u>2007</u>	<u>2006</u>
Medicare	22%	21%
Medicaid	16%	8%
Blue Cross	13%	11%
Other third-party payors	24%	25%
Self-pay	25%	35%
Total	<u>100%</u>	<u>100%</u>

**4. PROMISES TO GIVE**

Unconditional promises to give as of December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 20,116	\$ 26,021
Receivable in one to five years	57,971	55,606
Total unconditional promises to give	<u>78,087</u>	<u>81,627</u>
Less discounts to present value	(9,523)	(9,307)
Less allowance for uncollectible promises	<u>(7,809)</u>	<u>(8,162)</u>
Net unconditional promises to give	<u>\$ 60,755</u>	<u>\$ 64,158</u>

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 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:

	2007		2006	
	Fair value	Cost	Fair value	Cost
Demand deposits and money market accounts	\$ 652,342	\$ 652,342	\$ 3,707,006	\$ 3,707,006
Certificates of deposit	574,945	574,945	471,000	471,000
U.S. Government and agencies	-	-	1,338,148	1,316,799
Stock	504,000	248,000	643,440	248,000
Annuity	34,079	30,180	33,531	30,000
Total	\$ 1,765,366	\$ 1,505,467	\$ 6,193,125	\$ 5,772,805

At December 31, 2007, the financial institution balance of the Organization's demand deposits, certificates of deposit and money market accounts totaled \$1,465,858. Of this balance, \$593,170 was covered by federal depository insurance and \$812,921 was collateralized with securities held at the pledging banks. Uninsured money market accounts held with an investment company totaled \$59,767.

Investments in US Government and US Government Agency securities and mutual funds were uninsured and held by a respective agent of the Organization in the name of the respective Organizational entity. Investments in common stock were held by the Hospital in the Hospital's name.

Common stock with a fair value at its donation of \$248,000 and market value of \$504,000 and \$643,440, respectively at December 31, 2007 and 2006 is not readily traded on a quoted market; therefore, the year-end market value is determined by valuation.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The Organization's investments generally are reported at fair value. At December 31, 2007, the Organization had the following investments and maturities, all of which were held by a respective agent of the Organization in the name of the entity:

Moody's	S&P	Morning Star	Entity	Fair Value	Maturities in years (less than 1)	Maturities in years (1-5)	As part of Total Investments
N/A-1	N/A-1		Empire Bancshares, Inc. stock	504,000	N/A-1	N/A-1	93.7%
N/A-1	N/A-1		Franklin Income mutual fund	8,834	N/A-1	N/A-1	1.6%
N/A-1	N/A-1		Putnam Voyager mutual fund	8,813	N/A-1	N/A-1	1.6%
N/A-1	N/A-1		Oppenheimer High Income mutual fund	8,063	N/A-1	N/A-1	1.5%
N/A-1	N/A-1		Oppenheimer MidCap mutual fund	8,369	N/A-1	N/A-1	1.6%
				<u>\$ 538,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>100.0%</u>

N/A-1: Equity securities, rating disclosure not required, no maturity period to report

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

*Credit Risk.* The 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.



# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 6. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2007 and 2006:

2007	12/31/2006	Increases	Decreases	12/31/2007
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	473,534	2,633,971	(2,450,085)	657,420
Land and land improvements	288,959	7,516	(1,094)	295,381
Building and fixed equipment	14,164,403	1,136,744	(4,644)	15,296,503
Furniture and fixtures	7,328,141	291,186	(362,493)	7,256,834
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>23,443,887</u>	<u>4,069,417</u>	<u>(2,818,316)</u>	<u>24,694,988</u>
Less accumulated depreciation	<u>(7,563,098)</u>	<u>(1,652,322)</u>	<u>359,495</u>	<u>(8,855,925)</u>
Total property and equipment, net	<u>\$ 15,880,789</u>	<u>\$ 2,417,095</u>	<u>\$ (2,458,821)</u>	<u>\$ 15,839,063</u>

  

2006	12/31/2005	Increases	Decreases	12/31/2006
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	1,299,922	11,155,809	(11,982,197)	473,534
Land and land improvements	256,042	32,917	-	288,959
Building and fixed equipment	3,947,525	10,216,878	-	14,164,403
Furniture and fixtures	5,790,218	1,724,840	(186,917)	7,328,141
Capital leases	100,000	-	-	100,000
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>12,482,558</u>	<u>23,130,444</u>	<u>(12,169,114)</u>	<u>23,443,888</u>
Less accumulated depreciation	<u>(6,940,913)</u>	<u>(807,562)</u>	<u>185,376</u>	<u>(7,563,099)</u>
Total property and equipment, net	<u>\$ 5,541,645</u>	<u>\$ 22,322,882</u>	<u>\$ (11,983,738)</u>	<u>\$ 15,880,789</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**7. LONG-TERM DEBT**

Long term debt consists of the following:

	<u>2007</u>	<u>2006</u>
2005 County Hospital Facilities Revenue Bonds, Serial Bonds, variable interest rate, due December 1, 2032, mandatory annual redemption beginning December 1, 2008, in installments ranging from \$95,000 to \$475,000 plus interest	\$ 6,600,000	\$ 12,600,000
Ohio Hospital Facilities Revenue Refunding Bonds, Serial 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	<u>6,000,000</u>	<u>-</u>
Total	12,600,000	12,600,000
Less current portion	<u>12,600,000</u>	<u>-</u>
Long-term debt	<u>\$ -</u>	<u>\$ 12,600,000</u>

	Revenue Bonds Series 2005	Revenue Refunding 2007 Bonds	Total
December 31, 2006	\$ 12,600,000	\$ -	\$ 12,600,000
Additions	-	6,000,000	6,000,000
Payments	6,000,000	-	6,000,000
December 31, 2007	<u>\$ 6,600,000</u>	<u>6,000,000</u>	<u>\$ 12,600,000</u>
Amounts due within one year	<u>\$ 6,600,000</u>	<u>\$ 6,000,000</u>	<u>\$ 12,600,000</u>

	Series 2005 Bonds	Total
December 31, 2005	\$ 12,600,000	\$ 12,600,000
Additions	-	-
Payments	-	-
December 31, 2006	<u>\$ 12,600,000</u>	<u>\$ 12,600,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

Scheduled payments on long-term debt are as follows:

Year ending December 31,	Series 2005 Bonds			2007 Refunding Bonds		
	Principal	Interest	Interest Rate Swap, Net	Principal	Interest	Total
2008	6,600,000	232,016	68,436	6,000,000	247,500	13,147,952
Total	\$ 6,600,000	\$ 232,016	\$ 68,436	\$ 6,000,000	\$ 247,500	\$ 13,147,952

At December 31, 2007 the Hospital was not in compliance with the provisions of the bond covenants which require debt service coverage to be greater than 1.25 to 1 and net assets to be greater than \$8,000,000. The Hospital has not obtained a waiver of these covenants. Accordingly, the total amount of bonds has been classified as current portion of long-term debt in the balance sheet.

During 2005, the Hospital obtained \$12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005, for the purpose constructing, equipping, installing and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2032. The adjustable interest rate at December 31, 2007 was 3.46%. The debt is collateralized by Hospital receipts, a lien on the property and a letter of credit issued by Fifth Third Bank. The letter of credit expires December 15, 2010.

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

Interest Rate Swap

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

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

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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*Fair Value.* Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$541,519 as of December 31, 2007.

*Credit Risk.* As of December 31, 2007 the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty had a bank financial strength rating of B+ by Moody's Investors Service as of December 31, 2007.

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

### 8. LINE OF CREDIT

The Hospital has a \$650,000 line of credit with a bank payable on demand, subject to annual review of the financial condition of the Hospital. The line carries a 7.75% rate of interest (tied to WSJ prime rate and adjustable daily) and requires monthly interest payments. At December 31, 2007 and 2006 the Hospital had borrowings against the line of \$194,385 and \$350,000, respectively. The line is secured by investments of the Hospital.

### 9. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System of Ohio, (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

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Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.85% and 9.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

<u>Year</u>	<u>Contribution</u>
2007	\$ 957,269
2006	\$ 787,432
2005	\$ 693,306

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2007 employer contribution rates of 13.85% used to fund healthcare was 5% from January 1, 2007 through June 30, 2007 and 6% from July 1, 2007 through December 31, 2007. The 2006 employer contribution rate was 13.70% and the portion to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2006. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2006 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. Hospital contributions made to fund post-employment benefits approximated \$380,000, \$259,000 and \$205,000 for 2007, 2006 and 2005, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2006 was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$31.3 billion and \$20.2 billion, respectively.

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

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

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 10. BLENDED COMPONENT UNITS

The combined financial statements include the Foundation and Auxiliary as blended component units. The following summarizes the financial position and activities of the Foundation and the Auxiliary as of and for the year ended December 31, 2007:

	Foundation	Auxiliary
<b>Current assets</b>		
Cash and cash equivalents	\$ 229,815	\$ 68,945
Investments	34,079	-
Unconditional promises to give, current portion	20,116	-
Total current assets	284,010	68,945
<b>Non-current assets</b>		
Unconditional promises to give, long term	40,639	-
Total assets	\$ 324,649	\$ 68,945
<b>Net assets</b>		
Restricted by donors for specific uses	64,158	22,525
Unrestricted	260,491	46,420
Total net assets	\$ 324,649	\$ 68,945
<b>Income</b>		
Memorials and capital campaign	\$ 196,737	\$ -
Auxiliary projects	-	19,687
Total income	196,737	19,687
<b>Expenses</b>		
Contributions	38,676	-
Other	-	33,138
Total expenses	38,676	33,138
Excess expenses over revenues	158,061	(13,451)
<b>Net assets, beginning of year</b>	166,588	82,396
<b>Net assets, end of year</b>	\$ 324,649	\$ 68,945

### 11. RISK MANAGEMENT

The Hospital is self-insured, subject to certain stop-loss coverage, for its employees' health benefits. The Hospital accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history.

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 12. AFFILIATION

On July 23, 2003 the Hospital entered into an affiliation agreement with IOM Health System, LPA d/b/a Lutheran Health Network. The affiliation is for the purposes of collaboration for expanded development and integration of services to residents of the Hicksville area. The affiliation does not lead to ownership or management of either organization by the other.

### 13. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2007 (footnote 7). As a result, all such debt has been classified as a current liability. This results in a current ratio of less than 1 to 1, which could be indicative of an entity's inability to continue as a going concern. The Hospital is negotiating and pursuing other financing to address this situation.

The Hospital's net assets decreased approximately \$2,254,000 in 2007. Further, the Hospital's operating expenses increased approximately \$3,610,000 in 2007, or 29% over 2006. The resulting loss from operations was approximately \$1,288,000 in 2007.

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

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



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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2007**

Program	Federal Grantor	CFDA Number	Federal Expenditures
<b>Major program</b>			
Community Facilities Loans and Grants	Rural Development (RD) Department of Agriculture	10.766	\$ 6,000,000
Total federal expenditures			<u>\$ 6,000,000</u>

Note - The accompanying schedule of expenditures of federal awards for the year ended December 31, 2007 includes the federal grant activity of the Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.



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

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

We have audited the combined financial statements of Mark Milford Hicksville Joint Township Hospital District, as of and for the year ended December 31, 2007, and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion in the effectiveness of Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mark Milford Hicksville Joint Township Hospital District's combined financial statements are free of material misstatement, we performed tests of it compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mark Milford Hicksville Joint Township Hospital District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Mark Milford Hicksville Joint Township Hospital District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, and the Auditor of the State of Ohio and is not intended to be an should not be used by anyone other than those specified parties.

*Blue & Co., LLC*

September 22, 2008



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
 TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
 ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Mark Milford Hicksville Joint Township Hospital District (the Hospital) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Hospital's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

Mark Milford Hicksville Joint Township Hospital District  
Hicksville, Ohio

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Trustees, management, the cognizant audit agencies, other federal awarding agencies and pass-through entities and the auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

*Blue & Co., LLC*

September 22, 2008

# MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2007

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### Summary of Audit Results

#### *Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none noted

Noncompliance material to financial statements noted?  yes  no

#### *Federal Awards*

Internal controls over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none noted

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major program:

CFDA Number  
10.766

Name of Federal Program or Cluster  
Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

**Mark Milford Hicksville Joint Hospital District and Subsidiaries**  
**Schedule of Prior Audit Findings**  
**Year Ended December 31, 2006**

**2006-1: Accrual of Capital Expenditures**

Auditing procedures resulted in the discovery of construction costs incurred during 2006 that were not accrued at year-end. An audit adjustment was proposed to record \$999,014 of construction in process and accrued expenses. In order to ensure accurate period-end financial reporting during future construction projects, we recommend management review payment and service dates for proper cut-off recording.

Current Status:

Policies and procedures were revised to address accrual of period end construction costs on this and future projects.

**2006:2 Contractual and Bad Debt Allowances**

Auditing procedures resulted in adjustments to contractual allowances and bad debt allowances relating to patient accounts receivable. The Hospital's contractual allowance model was not updated at year-end for 2006 payment experience. We recommend that the Hospital review and update this model at least quarterly to help ensure accurate interim financial reporting.

Current Status:

The contractual model was updated during 2007 as part of the contractual allowance and bad debt allowance monitoring.

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

**2007:1 Contractual Allowances – New Payors**

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

*Management's Response:*

*New payors will be incorporated in the contractual allowance model as part of the quarterly update.*

**2007:2 Monitoring Bond Covenants**

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

*Management's Response:*

*Covenants have been identified and will be calculated and monitored as part of financial reporting.*





**Mary Taylor, CPA**  
Auditor of State

**MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 18, 2008**