MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

CPAS / ADVISORS

Dave Yost • Auditor of State

Board of Governors
Mark Milford Hicksville Joint Township Hospital District
208 North Columbus Street
Hicksville, Ohio 43526

We have reviewed the *Report of Independent Auditors* of the Mark Milford Hicksville Joint Township Hospital District, Defiance County, prepared by Blue & Co., LLC, for the audit period January 1, 2012 through December 31, 2012. 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.

Dave Yost
Auditor of State

October 24, 2013

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

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blue

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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, 2012 and 2011, 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 opinions.

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, 2012 and 2011, 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.

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 8 to the consolidated financial statements, the Organization did not meet certain covenants related to the bonds outstanding at December 31, 2012. In addition the letter of credit on certain debt is due to expire December 15, 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 July 31, 2013 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

Baird G., LLC

Columbus, Ohio
July 31, 2013

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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 increased $1,019,261 in 2012, and decreased $1,029,384 in 2011 and $187,205 in 2010. The increase in 2012 resulted from a $1,461,868 operating gain offset by non-operating expenses of $442,607.

- The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2012 (footnote 8). In addition the letter of credit on certain debt is due to expire December 15, 2013. As a result, the corresponding debt has been classified as a current liability. These conditions raise substantial doubt about its ability to continue as a going concern.

- Total assets and deferred outflows increased $721,473 from $21,296,419 at December 31, 2011 to $22,017,892 at December 31, 2012. Net days receivable were 61 and 64 days at December 31, 2012 and 2011, respectively.

- Total liabilities decreased $297,788 which relates primarily to a decrease in other long-term liabilities.

- Net patient service revenue increased $1,168,290 or 5.2%, over 2011. Total operating expenses increased $1,029,138, or 4.3%, over 2011. There was an operating gain of $1,461,868 in 2012 compared to an operating loss of $397,174 in 2011.

- Net cash provided from operating activities was approximately $1,265,394 in 2012 and approximately $1,089,000 in 2011.

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 increased $1,019,261 from $3,351,188 at December 31, 2011 to $4,370,449 at December 31, 2012. Table 1 provides a summary of the Hospital's balance sheets at December 31, 2012, 2011 and 2010.

Table 1: Net Position

	2012	2011	2010
Assets			
Current assets	$ 6,755,273	$ 5,465,415	$ 5,670,547
Assets whose use is limited, net of current portion	434,410	428,002	427,299
Capital assets	12,436,245	13,236,271	12,378,384
Other	978,834	819,900	623,916
Deferred outflows	1,413,130	1,346,831	898,184
Total assets and deferred outflows	22,017,892	21,296,419	19,998,330
Liabilities			
Current liabilities	15,047,918	3,548,481	2,862,335
Interest rate swap	1,413,130	1,346,831	898,184
Other long-term	1,186,395	13,049,919	11,857,239
Total liabilities	17,647,443	17,945,231	15,617,758
Net position			
Net invested in capital assets	(551,161)	(119,014)	396,384
Restricted	51,489	13,612	71,205
Unrestricted	4,870,121	3,456,590	3,912,983
Total net position	$ 4,370,449	$ 3,351,188	$ 4,380,572

Capital Assets

Capital assets decreased from $13,236,271 in 2011 to $12,436,245 in 2012. The decrease relates primarily to $1,325,337 in depreciation expense offset by additions of $525,311.

Debt

At December 31, 2012, the Hospital had $12,987,406 of debt outstanding. The Hospital manages a portion of its interest rate risk through a pay-fixed, receive-variable interest rate swap related to $6,085,000 of its bonds.

At December 31, 2012, the Hospital was not in compliance with certain provisions of bond covenants which require days cash on hand of at least 25 days. 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 2012 compared to 2011 and 2010.

Table 2: Revenues and Expenses

	2012	2011	2010
Operating revenue			
Net patient service revenue	$ 23,789,582	$ 22,621,292	$ 20,316,177
Other operating revenue	2,386,471	666,581	273,769
Total operating revenues	26,176,053	23,287,873	20,589,946
Operating expenses			
Salaries and wages	11,576,258	10,898,911	9,185,437
Employee benefits	3,485,345	4,170,977	2,861,456
Physician services	1,082,543	1,056,685	1,055,022
Purchased services	3,156,674	2,752,821	2,425,489
Supplies	1,779,244	1,510,200	1,264,698
Maintenance and repairs	693,434	531,689	530,051
Utilities	634,934	627,403	593,443
Insurance	349,893	336,326	378,969
Miscellaneous	630,523	469,372	511,978
Depreciation	1,325,337	1,330,663	1,407,824
Total operating expenses	24,714,185	23,685,047	20,214,367
Operating gain (loss)	1,461,868	(397,174)	375,579
Non-operating revenue (expenses)			
Investment and other income, net	292,595	72,582	86,308
Interest expense	(735,202)	(704,792)	(649,092)
Total non-operating revenues (expenses)	(442,607)	(632,210)	(562,784)
Change in net position	$ 1,019,261	$ (1,029,384)	$ (187,205)

Net Patient Service Revenue

Gross patient service revenue increased $2,583,862 in 2012, or 6%, over 2011. Inpatient revenue increased $234,193 during 2012 while outpatient revenue increased $1,039,668 and physician offices and other revenue increased $1,310,001. There was an overall rate increase of 3% in 2012. Also, outpatient procedures increased 4% over the prior year while inpatient admissions increased 0.2% from the prior year.

Net patient service revenue increased $1,168,290, or 5.2%, from $22,621,292 in 2011 to $23,789,582 in 2012.

Total inpatient days decreased in 2012 as shown below in relation to 2011 and 2010:

Table 3

Unit	2012 Patient Days	2011 Patient Days	2010 Patient Days
Medical	1,245	1,427	1,335
Medical Beds	58	91	101
Surgical	76	44	71
Pediatrics	26	50	22
Swing Bed	954	918	1,035
Maternity	266	262	283
Nursery	236	215	228
Respite	10	-	-
Total	2,871	3,007	3,075

Deductions from Revenue

Contractual service adjustments, charity care and bad debts, expressed as a percentage of gross revenues, were 47% in 2012 and 2011.

Charity care deductions from revenue for 2012 decreased to $451,169 from $1,501,903 in 2011. 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 2012 exceeded 2011 levels by $1,029,138, representing a 4.3% increase.

The largest increases in operating expenses in 2012 over 2011 level are reflected in salaries and wages, purchased services and supplies.

Non-operating Revenues

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

Cash Flow

Changes in cash flows are consistent with changes in operating gains and non-operating revenues and expenses discussed earlier.

Economic Factors and Next Year's Budget

The Board of Governors approved the 2013 operating budget at their December 2012 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 $304,000.

The net patient revenue for the year improved by 5.2% and our operating expenses increased 4.3% over 2011 giving us a 5.6% operating margin. The Hospital has a dedicated senior management team along with talented managers that are dedicated to the success of the Hospital.

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

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

Contacting the Mark Milford Hicksville Joint Hospital District Management

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

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

ASSETS AND DEFERRED OUTFLOWS

	2012	2011
Current assets		
Cash and cash equivalents	$ 419,156	$ 523,275
Investments	500,449	464,737
Patient accounts receivable, net of allowance for doubtful accounts of $2,385,000 in 2012 and $1,851,000 in 2011	3,955,748	3,936,012
Other receivables	1,522,239	202,746
Unconditional promises to give, current portion	37,133	-
Supplies inventory	240,850	178,136
Prepaid expenses	147,533	167,727
Total current assets	6,823,108	5,472,633
Assets limited as to use		
Internally designated	434,410	428,002
Held by Foundation	175,158	311,587
Total assets limited as to use	609,568	739,589
Capital assets, net	12,436,245	13,236,271
Unconditional promises to give, long term	42,194	-
Other		
Other receivables, long term	734,954	668,694
Bond issuance costs	201,686	210,090
Total other assets	936,640	878,784
Deferred outflows	1,413,130	1,346,831
Total assets and deferred outflows	$ 22,260,885	$ 21,674,108

See accompanying notes to consolidated financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	2012	2011
Current liabilities		
Accounts payable	$ 1,359,084	$ 761,451
Accrued expenses	891,674	1,143,039
Compensated absences	641,441	552,900
Estimated third party settlement	182,708	591,725
Current portion of long-term debt	11,823,011	349,366
Total current liabilities	14,897,918	3,398,481
Long-term debt	1,164,395	13,005,919
Interest rate swap	1,413,130	1,346,831
Other long term liabilities	22,300	44,000
Total liabilities	17,497,743	17,795,231
Net position (Deficiency in net position)		
Net invested in capital assets	(551,161)	(119,014)
Restricted	472,320	541,301
Unrestricted	4,841,983	3,456,590
Total net position	4,763,142	3,878,877
Total liabilities and net position	$ 22,260,885	$ 21,674,108

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, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	$ 23,789,582	$ 22,621,292
Other operating revenue	2,386,471	666,581
Total operating revenues	26,176,053	23,287,873
Operating expenses		
Salaries and wages	11,576,258	10,898,911
Employee benefits	3,485,345	4,170,977
Physician services	1,082,543	1,056,685
Purchased services	3,156,674	2,752,821
Supplies	1,779,244	1,510,200
Maintenance and repairs	693,434	531,689
Utilities	634,934	627,403
Insurance	349,893	336,326
Miscellaneous	661,706	494,987
Depreciation	1,325,337	1,330,663
Total operating expenses	24,745,368	23,710,662
Operating income (loss)	1,430,685	(422,789)
Non-operating revenues (expenses)		
Investment and other income, net	188,782	236,664
Interest expense	(735,202)	(704,792)
Total non-operating revenues (expenses)	(546,420)	(468,128)
Change in net position	884,265	(890,917)
Net position, beginning of year	3,878,877	4,769,794
Net position, end of year	$ 4,763,142	$ 3,878,877

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, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 23,360,829	$ 22,363,411
Cash paid to suppliers for services and goods	(9,268,395)	(7,229,201)
Cash payments to employees for wages and benefits	(15,246,127)	(14,798,919)
Other operating revenue received	2,386,471	666,581
Net cash from operating activities	1,232,778	1,001,872
Cash flows from capital and related financing activities		
Payments on long-term debt	(367,879)	(246,467)
Acquisitions and construction of capital assets	(525,311)	(568,798)
Interest paid on capital related debt and capital leases	(726,798)	(696,388)
Net cash from capital and related financing activities	(1,619,988)	(1,511,653)
Cash flows from investing activities		
Interest on investments	188,782	236,664
Other changes in investments	10,568	(4,527)
Net cash from investing activities	199,350	232,137
Net change in cash and cash equivalents	(187,860)	(277,644)
Cash and cash equivalents, beginning of year	1,640,944	1,918,588
Cash and cash equivalents, end of year	$ 1,453,084	$ 1,640,944
Cash and cash equivalents include the following		
Cash and equivalents and investments	$ 919,605	$ 988,012
Assets limited as to use - cash and cash equivalents	533,479	652,932
Total cash and cash equivalents	$ 1,453,084	$ 1,640,944
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ 1,430,685	$ (422,789)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation	1,325,337	1,330,663
Bad debt	1,527,861	1,284,422
Changes in operating assets and liabilities		
Patient accounts receivable	(1,547,597)	(1,687,911)
Estimated third-party settlements	(409,017)	145,608
Other receivables	(1,465,080)	153,546
Supplies inventory	(62,714)	(1,183)
Prepaid expenses	20,194	(10,417)
Accounts payable	597,633	(61,036)
Accrued expenses	(162,824)	330,208
Other long term liabilities	(21,700)	(59,239)
Net cash from operating activities	$ 1,232,778	$ 1,001,872
Supplemental disclosure of non cash activities		
Change in interest rate swap and deferred outflows	$ 66,299	$ 448,647
Financed fixed asset additions	$ -	$ 1,619,752

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Blended Component Unit

In order to comply with the provisions of Statements No.14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, issued by the Governmental Accounting Standards Board (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.

New Pronouncements

During 2012, the Hospital adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change resulted in renaming net assets to net position within the balance sheets and statements of revenues, expenses and changes in net position. GASB No. 63 has been applied retrospectively in the accompanying financial statements.

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.

Bond Issuance Costs

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

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.

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 change in the Foundation. 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 $24,745,000 and $23,711,000 during 2012 and 2011 respectively), an estimated $235,000 and $838,000 arose from providing services to charity patients in 2012 and 2011. 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 $285,000 in 2012 and $406,000 in 2011.

Physician Recruitment Agreements and Physician Advances Receivable

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

The Organization recorded a liability of approximately $0 and $63,000 in accrued expenses and other long term liabilities at December 31, 2012 and 2011 for the estimated obligation to the Organization (current and long-term) under these arrangements with an offsetting asset recorded in other receivables within the accompanying balance sheet.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare program. To qualify for these payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital 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 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital'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 Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital 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 2012 and 2011, the Hospital recognized approximately $1,499,000 and $0, 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 Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is July 31, 2013.

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 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 2009 and with Medicaid through 2006. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2012 and 2011, which Hospital management believes will approximate final settlements after audit by the respective agencies.

Net patient service revenue consists of the following:

	2012	2011
Gross patient service revenue		
Inpatient revenue	$ 10,172,669	$ 9,938,476
Outpatient revenue	25,448,937	24,409,269
Physician offices and other	9,436,977	8,126,976
Total gross patient service revenue	45,058,583	42,474,721
Deductions from revenue		
Provision for contractual allowances	19,289,971	17,067,104
Provision for bad debt allowances	1,527,861	1,284,422
Provision for charity care	451,169	1,501,903
Total deductions from revenue	21,269,001	19,853,429
Total net patient service revenue	$ 23,789,582	$ 22,621,292

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2012	2011
Patient accounts receivable	$ 9,357,609	$ 8,075,090
Allowance for uncollectible accounts	(2,384,686)	(1,850,879)
Allowance for contractual adjustments	(3,017,175)	(2,288,199)
Net patient accounts receivable	$ 3,955,748	$ 3,936,012

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

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

The Hospital grants credit without collateral to its patients, most of who are insured under third-party agreements. The mix of revenues and receivables as of December 31, 2012 and 2011 was as follows:

	2012		2011	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	17%	29%	17%	32%
Medicaid	2%	2%	4%	3%
Other third-party payors	58%	63%	52%	60%
Self-pay	23%	6%	27%	5%
	100%	100%	100%	100%

4. PROMISES TO GIVE

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

	2012
Receivable in less than one year	$ 51,491
Receivable in one to five years	59,462
Total unconditional promises to give	110,953
Less discounts to net present value	(5,183)
Less allowance for uncollectible promises	(26,442)
Net unconditional promises to give	$ 79,327

5. DEPOSITS AND INVESTMENTS

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

At December 31, 2012:

	Fair value	Cost
Demand deposits and money market accounts	$ 849,655	$ 849,655
Certificates of deposit	603,429	603,429
Stocks	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

At December 31, 2011:

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

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

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	2012	2011
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	$ 1,752,257	$ 1,939,196
Amount of deposits covered by federal depository insurance	1,175,233	1,371,234
Amounts of deposits uninsured	$ 577,024	$ 567,962

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

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	$ -	$ -

At December 31, 2011:

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

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

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

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2012 and 2011.

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, 2012 and 2011.

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, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Equities				
Telecommunication	$ 15,782	$ -	$ -	$ 15,782
Energy	4,164	-	-	4,164
Financial services	3,275	-	-	3,275
Real estate	24,296	-	-	24,296
Utilities	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	$ 76,089	$ -	$ -	$ 76,089

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

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

	Level 1	Level 2	Level 3	Total
Assets:				
Equities				
Telecommunication	$ 17,069	$ -	$ -	$ 17,069
Commodity	4,274	-	-	4,274
Financial sector	7,454	-	-	7,454
Real estate	11,059	-	-	11,059
Health care	5,453	-	-	5,453
Retail	4,880	-	-	4,880
Preferred	24,656	-	-	24,656
Mutual Funds		-	-	
Corporate bond	11,812	-	-	11,812
Total	$ 86,657	$ -	$ -	$ 86,657

Deferred outflows and liabilities:	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ 1,346,831	$ -	$ 1,346,831

7. CAPITAL ASSETS

Capital assets consist of the following at December 31, 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	24,219,399	518,953	-	1,750,022	26,488,374
Capital leases	100,000	-	-	-	100,000
Rehabilitation center	913,235	-	-	-	913,235
Contractual equipment	13,903	6,358	-	-	20,261
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	(12,341,218)	(1,230,973)	-	-	(13,572,191)
Family health center	(1,094,159)	-	-	-	(1,094,159)
Health Fit	-	(49,070)	-	-	(49,070)
Rehabilitation center	(548,162)	(34,944)	-	-	(583,106)
Contractual equipment	(13,903)	-	-	-	(13,903)
Total accumulated depreciation	(14,283,022)	(1,325,337)	-	-	(15,608,359)
Total capital assets, net	$ 13,236,271	$ (800,026)	$ -	$ -	$ 12,436,245

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

2011	12/31/2010	Increases	Decreases	Transfers	12/31/2011
Land	$ 176,778	$ -	$ -	$ -	$ 176,778
Construction in progress	320,814	1,445,818	-	-	1,766,632
Land improvements	329,346	-	-	-	329,346
Building and equipment	23,491,733	727,666	-	-	24,219,399
Capital leases	100,000	-	-	-	100,000
Rehabilitation center	898,169	15,066	-	-	913,235
Contractual equipment	13,903	-	-	-	13,903
Total capital assets	25,330,743	2,188,550	-	-	27,519,293
Less accumulated depreciation					
Land improvements	(274,439)	(11,141)	-	-	(285,580)
Building and equipment	(11,106,739)	(1,234,479)	-	-	(12,341,218)
Family health center	(1,045,089)	(49,070)	-	-	(1,094,159)
Rehabilitation center	(512,189)	(35,973)	-	-	(548,162)
Contractual equipment	(13,903)	-	-	-	(13,903)
Total accumulated depreciation	(12,952,359)	(1,330,663)	-	-	(14,283,022)
Total capital assets, net	$ 12,378,384	$ 857,887	$ -	$ -	$ 13,236,271

8. LONG-TERM DEBT

Long term debt consists of the following at December 31, 2012 and 2011:

	2012	2011
2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (0.28% at December 31, 2012), due December 1, 2032, mandatory annual redemption beginning December 1, 2008, in installments ranging from $95,000 to $475,000 plus interest	$ 6,085,000	$ 6,200,000
Ohio Hospital Facilities Revenue Refunding (2007 Bonds), 4.125% fixed rate, mandatory annual redemption beginning December 1, 2008, in installments ranging from $105,000 to $338,000, maturity date of December 1, 2037	5,431,000	5,554,000
Lease - purchase agreement, electronic medical record equipment (EMR) and software, principal and interest payments ranging from $15,793 to $31,734, through May, 2017. Interest at 4.77%, secured by related equipment and software	1,471,406	1,601,285
Less current portion	(11,823,011)	(349,366)
Long-term debt	$ 1,164,395	$ 13,005,919

	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

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

Scheduled payments on long-term debt are as follows:

Using rates as of December 31, 2012, 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		
Year ending December 31,	Principal	Interest	Interest Rate Swap, Net	Principal	Interest	Principal	Interest	Total
2013	$ 6,085,000	$ 263,620	$ 2,119,920	$ 5,431,000	$ 3,375,163	$ 307,011	$ 73,797	$ 17,655,511
2014	-	-	-	-	-	324,213	56,595	380,808
2015	-	-	-	-	-	342,378	38,430	380,808
2016	-	-	-	-	-	361,561	19,246	380,807
2017	-	-	-	-	-	136,243	2,131	138,374
Total	$ 6,085,000	$ 263,620	$ 2,119,920	$ 5,431,000	$ 3,375,163	$ 1,471,406	$ 190,199	$ 18,936,308

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

The Hospital is required to meet certain financial covenants including debt service and day's cash on hand requirements. These covenants are required to be tested semi-annually. At December 31, 2012, the Hospital's day's cash on hand requirement was not met and the Hospital 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 Hospital obtained $12,600,000 of Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005 (2005 Bonds), for constructing, equipping, installing and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2032. The adjustable interest rate at December 31, 2012 was 0.28%.

The debt is collateralized by Hospital receipts and a letter of credit issued by Fifth Third Bank. The letter of credit expires December 15, 2013. In the event of a draw on the letter of credit due to troubled remarketing of the bonds by the bank, the Hospital has until the expiration date of the letter of credit to reimburse the bank. This expiration date, in addition to the failed financial covenant, results in the corresponding debt being classified as current within the balance sheet. Effective June 1, 2011, the Hospital's tangible net worth requirement was replaced by a day's cash on hand requirement.

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

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

At December 31, 2012 and 2011, the carrying value of equipment under capital lease is as follows:

	2012	2011
Cost of equipment under capital lease	$ 1,601,285	$ 1,601,285
Less accumulated amortization	186,817	-
Net carrying value	$ 1,414,468	$ 1,601,285

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

Contract

The Hospital has one interest rate swap agreement in effect at December 31, 2012 and 2011 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, 2012 are as follows. The notional amount of the swap matches the principal amount of the associated debt and decline with the principle amortization on the bonds.

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	$ 6,085,000	1/1/2008	4.460%	0.28%	$ (1,413,130)	January 1, 2021	A3, BBB+, A-

As of December 31, 2012, the negative fair value of the agreement may be countered by reductions in total interest payments under the swap agreement should the variable rate on the bonds increase. The variable rate on the swap is the USD-BMA Municipal Swap Index and the variable rate on the Series 2005 bonds is Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly.

The counterparty carries a guarantee by an entity ("counterparty guarantor") rated A3 by Moody's Investors Service (Moody's), BBB+ by Standard and Poor's (S&P), and A- by Fitch Ratings (Fitch).

Termination Risk

The Hospital or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap's fair value.

Basis Risk

The swap exposes the Hospital to basis risk should the relationship between SIFMA and USD-BMA Municipal Swap Index converges changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 4.46% and the synthetic rate of 4.67% for 2012. As of December 31, 2012, the variable rate on the Hospital's Series 2005 bonds was .28% whereas the variable rate from the counterparty was .10%

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

	2012	2011
	Assets	Assets
Deferred outflows	$ 1,413,130	$ 1,346,831
	Liabilities	Liabilities
Interest rate swap	$ 1,413,130	$ 1,346,831

10. OPERATING LEASES

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

2013	$ 580,630
2014	22,760
2015	24,656
	$ 628,046

Total rental expense for operating leases, including those with terms of one year or less, for 2012 and 2011 was $546,992 and $561,333, respectively and is included within purchased services on the statements of operations and changes in net position.

11. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2012 and 2011 are as follows:

	2012	2011
Payroll and related items	$ 481,833	$ 459,577
Self-insured benefits	101,323	125,090
Health insurance claims	308,518	558,372
Total salaries, wages and related accruals	$ 891,674	$ 1,143,039

12. 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 (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012 and 2011, member and employer contribution rates were consistent across all three plans. The 2012 and 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing 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 2012 and 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 4.0% and 6.05% during calendar year 2012 and 2011, respectively. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered by 1%, 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
2012	$ 1,507,623
2011	$ 1,414,366
2010	$ 1,200,335

Hospital contributions made to fund post-employment benefits approximated $431,000, $404,000, and $436,000 for 2012, 2011 and 2010, 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 SB 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.

13. RISK MANAGEMENT

The Organization is self-insured, subject to certain stop-loss coverage, for its employees' health benefits. The Organization accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history. The plan is covered by a stop-loss policy that covers claims over $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 $1,465,331 and $2,283,878 for 2012 and 2011, respectively.

14. AFFILIATION

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

15. BLENDED COMPONENT UNIT

The consolidated financial statements include Community Memorial Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the Foundation as of and for the year ended December 31, 2012 and 2011:

	2012	2011
Current assets		
Cash and cash equivalents	$ 85,735	$ 216,177
Investments	89,423	95,410
Line of credit - Hospital	150,000	150,000
Pledges receivable	79,327	13,612
Other receivables	13,145	7,218
Total current assets	417,630	482,417
Other		
Other receivables, long term	54,690	58,884
Total assets	$ 472,320	$ 541,301
Liabilities		
Pledges due to Hospital	$ 79,327	$ 13,612
Total liabilities	79,327	13,612
Net assets		
Restricted	392,993	527,689
Total liabilities and net assets	$ 472,320	$ 541,301
Non-operating revenues	$ 132,002	$ 225,573
Expenses		
Miscellaneous	266,698	87,106
Excess revenues over expenses (expenses over revenues)	$ (134,696)	$ 138,467

16. MANAGEMENT'S PLANS

The Organization has experienced a decrease in net position of approximately $800,000 from January 1, 2013 to April 30, 2013. As noted in footnote 8, the Organization was not in compliance with certain covenants at December 31, 2012 and the Organization is required to test and meet certain financial covenants on a semi-annual basis using the previous twelve months of financial results. The letter of credit is also due to expire December 15, 2013 and the Organization has not secured a commitment for extension. These factors could be indicative of the entity's inability to continue as a going concern.

Management of the Organization plans to return the Organization to profitability through increasing patient service revenues, evaluation of contribution margins of certain lines of business and flexing staff levels consistent with inpatient census and outpatient needs.

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.

17. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes 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 and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,"* issued June 2012, is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. A cost-sharing employer that does not have a special funding situation, is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer 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.

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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, 2012, 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 July 31, 2013.

Our report 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.

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 a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

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

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.

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.

Columbus, Ohio
July 31, 2013

Mark Milford Hicksville Joint Hospital District and Subsidiary

Schedule of 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.

Mark Milford Hicksville Joint Hospital District and Subsidiary

Schedule of Prior Year Audit Findings and Responses

Year Ended December 31, 2011

2011-1: Revenue Recognition (Material Weakness)

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

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

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

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Dave Yost • Auditor of State

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

DEFIANCE COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 7, 2013

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