MARK MILFORD HICKSVILLE
JOINT TOWNSHIP HOSPITAL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002

Auditor of State
Betty Montgomery

Board of Trustees
Mark Milford Hicksville Joint Township Hospital District

We have reviewed the Independent Auditor's Report of the Mark Milford Hicksville Joint Township Hospital District, Defiance County, prepared by Rea & Associates, Inc. for the audit period January 1, 2003 through December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 28, 2004

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

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FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

May 4, 2004

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of the Mark Milford Hicksville Joint Township Hospital District as of and for the years then ended December 31, 2003 and 2002, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mark Milford Hicksville Joint Township Hospital District's management. Our responsibility is to express an opinion on these basic 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 audit contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, effective January 1, 2002, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and GASB Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus,* and GASB Statement No. 38 – *Certain Financial Statement Disclosures*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District, a business-type activity as of December 31, 2003 and 2002, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated May 4, 2004 on our consideration of Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District doing business as Community Memorial Hospital's financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2003 and 2002. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Hospital's financial performance.

Financial Highlights

- In 2003, total assets increased $656,708 over 2002 levels. Net accounts receivable increased $44,669. Gross day's revenue in accounts receivable was 59 days at December 31, 2003, compared to 44 days at December 31, 2002.

- Total liabilities increased $267,022; current liabilities increased $353,153; other and long-term liabilities decreased $86,131 from December 31, 2002 to December 31, 2003.

- Net cash provided by operating activities was $1,200,803 in 2003 compared to $17,920 used in 2002. This increase is due to collections of third party and Medicare receipts due to the Hospital at year end 2002.

Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements. These statements are organized to present Community Memorial Hospital as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

Community Memorial Hospital (the Hospital) is organized as a Joint Township Hospital District under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation.

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

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

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

The Net Assets and the Statements of Activities, Changes in Net Assets and of Cash Flows, provide an indication of the Hospital's financial health. The Net Assets include the Hospital's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted because of loan covenants or other purposes. The Statements of Activities and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of loans and capital additions.

Financial Analysis of the Hospital

The Hospital's Net Assets changed from a year ago, *increasing* from $7,547,441 to $7,937,127. Table 1 provides a summary of the Hospital's Net Assets for 2003 compared to 2002 and 2001.

Table 1
Net Assets

	2003	2002	2001
Assets:			
Current Assets	$ 3,695,692	$ 3,278,482	$ 3,613,756
Assets Whose Use is Limited	2,295,094	2,171,671	2,255,519
Capital Assets	3,889,192	3,729,429	3,947,988
Miscellaneous Receivable, net of current	31,500	74,209	88,646
Notes Receivable & Investment	101,098	102,077	110,509
Total Assets	10,012,576	9,355,868	10,016,418
Liabilities			
Current Liabilities	1,482,606	1,129,453	1,847,670
Long-Term Debt	592,843	678,974	924,771
Total Liabilities	2,075,449	1,808,427	2,772,441
Net Assets:			
Invested in Capital Assets, net of related debt	3,205,018	2,921,428	2,858,245
Unrestricted	4,732,109	4,626,013	4,385,762
Total Net Assets	$ 7,937,127	$ 7,547,441	$ 7,244,007

In 2003, the Hospital's cash and investment position increased $489,083 or 28.1% over 2002. Part of the increase in cash is attributable to cash provided from operations.

Capital Assets

Capital assets increased from $3,729,429 to $3,889,192 in 2003. The increase relates to $762,827 in capital additions, offset by $603,064 in depreciation expense. Major capital additions included gastro scope equipment, fetal monitors, a Steris operating table, CAT scan tube and new hospital software.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2003 compared to 2002 and 2001.

Table 2
Revenues and Expenses

	2003	2002	2001
Revenue:			
Net Patient Services Revenue	$ 10,429,224	$ 9,690,971	$ 8,083,418
Total Revenues	10,429,224	9,690,971	8,083,418
Operating Expenses			
Salaries and wages	3,513,589	3,425,308	3,086,885
Purchased services	1,661,255	1,095,383	892,681
Employee benefits	1,360,999	1,146,918	912,217
Physician office	833,001	881,461	906,913
Physician services	776,758	734,540	547,678
Depreciation and amortization	603,064	606,424	530,184
Supply expense	598,809	590,447	510,406
Provision for bad debts	245,684	381,121	383,240
Maintenance and repair	192,619	179,679	170,356
Utilities	169,425	161,482	155,139
Miscellaneous	163,185	153,539	104,434
Insurance	96,084	73,181	83,654
Total Expenses	10,214,472	9,429,483	8,283,787
Operating Income (Loss)	214,752	261,488	(200,369)
Non-Operating Revenue (Expenses)			
Investment and Other Income, net	116,357	159,208	480,444
Changes in Unrealized Gains and Losses	94,920	(58,800)	(8,400)
Interest expense	(36,343)	(58,462)	(64,043)
Excess Revenues Over Expenses	$ 389,686	$ 303,434	$ 207,632

Net Patient Service Revenues

Compared to 2002, net patient service revenues increased $738,253 or 7.61%.

Gross patient service revenues increased approximately $1,260,000 or 10.2%. On January 1, 2003, the Hospital Board of Trustees approved a 3% price increase. This price increase accounts for approximately $372,000 of additional gross patient service revenues generated by the Hospital. Higher volumes in areas such as Laboratory, Respiratory Therapy, Physical Therapy, and Pharmacy account for the $888,000 in actual business growth in gross patient service revenue in 2003.

As in 2002, the Hospital faced several staffing shortages in areas that included Diagnostic Radiology, Occupational Therapy, and Respiratory Therapy. While these staffing shortages did not require us to eliminate or limit services to our patients, temporary staffing needs were expensive, costing $1,661,254 in 2003, 4.87% above purchased services in 2002. Some scheduling vacancies were filled with overtime of existing staff.

Inpatient Business Activity

Total patient days declined from 2001 to 2002 due to decreases in OB and Swing Bed activity. The activity levels for 2003 for Swing Beds continued to decline in 2003 but the increases in OB and Medical patient days offset that decline:

Table 3
Patient Days

Unit	2003 Patient Days	2002 Patient Days	2001 Patient Days	2002 to 2003 % Change
Medical	1063	961	956	10.6
Surgical	21	35	31	-40.0
Pediatrics	40	15	16	166.7
Swing Bed	722	832	1051	-13.2
Maternity	192	151	224	27.2
Nursery	163	128	141	27.3
Total	2,201	2,122	2,419	3.7

Outpatient Business Activity

The Hospital's outpatient business recorded a 10.5% growth, net of the overall 3% price increase. The areas that recorded the largest increase in revenues were in Laboratory, Pharmacy and Radiology and Physical Therapy.

Deductions from Revenue

Contractual service adjustments, expressed as a percentage of gross revenues were recorded at 22.8% in 2003, compared to 20.7% in 2002, an increase of 2.1%.

Charity care for 2003 decreased to $64,137 from $99,116 in 2002. 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. For 2003, the Hospital's Care Assurance distribution was $216,590 more than the assessment, compared to $217,881 in 2002.

Operating Expenses

Total operating expenses in 2003 exceeded 2002 levels $784,989 or 8%.

The largest increases in operating expenses in 2003 over 2002 levels are reflected in salaries and benefits.

Full time employees declined from 112.7 in 2002 to 111.4 in 2003. This is due to the closing of a physician's office, which was partially offset by the increased use of contracted personnel.

Employee benefits

Overall, Hospital benefit cost rose $214,080 or 18.7% in 2003, as compared to 2002.

Community Memorial Hospital is self-insured for health, vision, and dental benefits. Costs rose $73,784 or 21.9% in 2003.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2004-operating budget at their November 2003 meeting. This 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 operating of $383,000, a 3.5% operating margin.
The 2004-operating budget projects $501,000 excess of revenue and gains over expenses.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2003 AND 2002

ASSETS

	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 553,135	$ 181,403
Investments	1,141,000	1,141,000
Net patient receivables	1,290,438	1,245,769
Due from Medicare	327,000	417,423
Current portion of miscellaneous receivable	100,792	28,511
Supplies inventory	93,841	91,087
Prepaid expenses	80,035	57,766
Assets limited as to use	109,451	115,523
Total current assets	3,695,692	3,278,482
Assets limited as to use:		
Internally designated	2,404,545	2,287,194
Less amount required to meet current obligations	(109,451)	(115,523)
	2,295,094	2,171,671
Capital assets, net of depreciation	3,889,192	3,729,429
Miscellaneous receivables, net of current portion	31,500	74,209
Note receivable	101,098	102,077
TOTAL ASSETS	10,012,576	9,355,868

LIABILITIES AND NET ASSETS

	2003	2002
CURRENT LIABILITIES:		
Current portion of long-term debt and leases	91,331	129,027
Accounts payable	896,134	569,295
Accrued payroll	275,173	212,976
Compensated absences	219,968	218,155
Total current liabilities	1,482,606	1,129,453
Long-term debt and leases, less current portion	592,843	678,974
TOTAL LIABILITIES	2,075,449	1,808,427
NET ASSETS:		
Invested in capital assets, net of related debt	3,205,018	2,921,428
Unrestricted	4,732,109	4,626,013
TOTAL NET ASSETS	**$ 7,937,127**	**$ 7,547,441**

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
REVENUE:		
Net patient service revenue	$ 10,429,224	$ 9,690,971
OPERATING EXPENSES:		
Salaries and wages	3,513,589	3,425,308
Purchased services	1,661,255	1,095,383
Employee benefits	1,360,999	1,146,918
Physician office	833,001	881,461
Physician services	776,758	734,540
Depreciation and amortization	603,064	606,424
Supply expense	598,809	590,447
Provision for bad debts	245,684	381,121
Maintenance and repair	192,619	179,679
Utilities	169,425	161,482
Miscellaneous	163,185	153,539
Insurance	96,084	73,181
Total operating expenses	10,214,472	9,429,483
Operating income	214,752	261,488
NON-OPERATING REVENUES (EXPENSES):		
Investment and other income, net	116,357	159,208
Interest expense	(36,343)	(58,462)
Change in net unrealized gains and losses	94,920	(58,800)
Total non-operating revenues	174,934	41,946
Net increase in net assets	**$ 389,686**	**$ 303,434**

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
NET ASSETS, January 1	$ 7,547,441	$ 7,244,007
Increase in net assets	389,686	303,434
NET ASSETS, December 31	**$ 7,937,127**	**$ 7,547,441**

The accompanying notes are an integral part of the financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payers	$ 10,446,385	$ 9,497,102
Cash paid to suppliers for services and goods	(4,370,994)	(4,942,796)
Cash payments to employees for services	(4,874,588)	(4,572,226)
Net cash provided (used) by operating activities	1,200,803	(17,920)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on capital leases	(80,639)	(83,281)
Payments on notes and loans	(43,188)	(159,608)
Acquisitions and construction of capital assets	(762,827)	(534,723)
Interest paid on capital related debt and capital leases	(36,343)	(58,462)
Net cash used in capital and related financing activities	(922,997)	(836,074)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment on liquidation of investment	0	109,128
Interest on investments	93,559	151,377
Other non-operating income	22,798	7,831
Net cash provided by investing activities	116,357	268,336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	394,163	(585,658)
CASH AND CASH EQUIVALENTS, Beginning of year	305,797	891,455
CASH AND CASH EQUIVALENTS, End of year	**$ 699,960**	**$ 305,797**
CASH AND CASH EQUIVALENTS INCLUDE THE FOLLOWING:		
Cash and equivalents	$ 553,135	$ 181,403
Assets limited as to use cash and cash equivalents:		
Funds available for future construction and equipment	146,825	124,394
Total cash and cash equivalents	**$ 699,960**	**$ 305,797**
A reconciliation of operating income to net cash flows provided by operating activities is as follows:		
Operating income	$ 214,752	$ 261,488
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	603,064	606,424
Provision for bad debts	245,648	145,332
Changes in assets and liabilities:		
(Increase) Decrease in patient accounts receivable	(290,317)	186,549
(Increase) Decrease in Due from Medicare	90,423	(417,423)
(Increase) Decrease in miscellaneous receivable	(29,572)	37,005
Decrease (Increase) in notes receivable	979	(102,077)
Increase in inventories	(2,754)	(24,912)
Decrease (Increase) in prepaid items	(22,269)	7,881
(Decrease) Increase in accounts payable	326,839	33,326
(Decrease) Increase in Due to Medicare	0	(802,374)
Increase in accrued expenses	64,010	50,861
Net cash provided (used) by operating activities	**$ 1,200,803**	**$ (17,920)**

The accompanying notes are an integral part of the financial statements.

1. NATURE OF BUSINESS 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.

Change in Accounting Principle – Effective January 1, 2002, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34) as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statements Disclosures.* Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the Statements of Cash Flows on the direct method.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the Hospital, certain note disclosures have been added or amended in 2003 including future debt service and lease obligations, short-term obligations, and interest rates.

Basis of Presentation - The Hospital financial statements have been presented in conformity with generally accepted accounting principles as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants and Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement No. 34). In accordance with hospital industry accounting practice, the financial statements include an unrestricted fund.

The Hospital's net assets are considered to be unrestricted.

Accounting Standards – The financial statements of the Hospital and Foundation (the reporting entity) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. The most significant of the Reporting Entity's accounting policies are described below.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Basis of Accounting - The operations of the Hospital are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized and all assets and liabilities associated with the operation of the hospital are included in the Statement of Net Assets. The principle revenues of the hospital are revenues received from insurers and/or patients for direct patient care. Operating expenses for the hospital include cost of direct patient care, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash equivalents - Cash equivalents include all highly liquid investments purchased from original maturities of six months or less, excluding arrangements under trust agreements.

Investments are carried at fair value. Gains and losses on investments, both realized and unrealized, are included in income.

Interest and dividends on investments are included in non-operating income when earned.

Patient Accounts Receivable and Revenue - Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inventories - Inventories are stated at the lower of cost or market value determined by the first-in, first-out method.

Assets Limited as to Use - Assets limited as to use consist of invested funds designated by the Board of Trustees for future capital improvements, funds invested in accordance with agreements with a third-party, and funds held by trustees under indenture agreements (see Note 6).

Property and Equipment – All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Reporting Entity maintains a capitalization threshold of five hundred dollars. The Reporting Entity does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment under capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity Care - The Hospital maintains a policy whereby care is provided to patients who meet certain criteria 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.

2. DEPOSITS AND INVESTMENTS

The classification of cash and cash equivalents, assets whose use is limited and investments on the financial statements differs from criteria set forth in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements". Reconciliation between the general fund classifications of cash and cash equivalents, assets whose use is limited and investments on the financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	2003		2002	
	Cash and Cash Equivalents	**Assets Whose Use Is Limited**	**Cash and Cash Equivalents**	**Assets Whose Use Is Limited**
Financial statements	$1,694,135	$2,258,545	$ 1,322,403	$ 2,141,194
Investments	(1,141,000)	(2,111,720)	(1,141,000)	(2,016,800)
Cash on hand	(1,010)	0	(1,391)	0
GASB Statement No. 3 deposits	**$ 552,125**	**$ 146,825**	**$ 180,012**	**$ 124,394**

The Hospital may deposit funds not needed for immediate expenses in interest-bearing or non-interest-bearing accounts or in United States government obligations.

Deposits - At December 31, 2003 and 2002, the carrying amount of the Hospital's book deposits were $3,419,950 and $3,025,406 as compared to bank balances of $3,526,861 and $3,292,725. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. As of December 31, 2003 and 2002 bank balances of $300,000 were covered by Federal insurance programs and $3,226,861 and $2,992,725 are collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments - The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the Hospital or its agent in the Hospital's name. Risk Categories 2 and 3 include investments which are neither insured or registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Hospital's name.

2. DEPOSITS AND INVESTMENTS (continued)

	2003				2002			
	Category 2	Category 3	Reported Amount	Fair Value	Category 2	Category 3	Reported Amount	Fair Value
Certificates of Deposit	$ 0	$1,580,000	$1,580,000	$1,580,000	$ 0	$1,580,000	$1,580,000	$1,580,000
Common stock	531,720	0	531,720	531,720	436,800	0	436,800	436,800
Total investments	$531,720	$1,580,000	$2,111,720	$2,111,720	$436,800	$1,580,000	$2,016,800	$2,016,800

Common stock with a fair market value at its donation date of $248,000 and market value of $531,720 and $436,800, respectively as of December 31, 2003 and 2002 is not readily traded on a quoted market; therefore, the year-end market value is determined by valuation.

The Hospital's investments are held by the Hospital or its agent in the Hospital's name.

The cost and approximate fair value of investments are as follows:

Assets limited as to use:

2003	Cost	Fair Value January 1, 2003	Fair Value December 31, 2003	Change in Fair Value
Certificates of Deposits	$ 1,580,000	$ 1,580,000	$ 1,580,000	$ 0
Common Stock:				
Empire Banc Stock	$ 248,000	$ 436,800	$ 531,720	$ 94,920

2002	Cost	Fair Value January 1, 2002	Fair Value December 31, 2002	Change in Fair Value
Certificates of Deposits	$ 1,580,000	$ 1,580,000	$ 1,580,000	$ 0
Common Stock:				
Empire Banc Stock	$ 248,000	$ 495,600	$ 436,800	$ (58,800)

The Empire Banc Stock collateralizes the long-term debt discussed in Note 8.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2003	December 31, 2002
Total patient accounts receivable	$ 1,556,477	$ 1,537,397
Less allowances for uncollectible accounts	(266,039)	(291,628)
Net patient receivables	$ 1,290,438	$ 1,245,769

3. PATIENT ACCOUNTS RECEIVABLE (continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare*. Inpatient and outpatient services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology. 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*. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are paid based on a predetermined fee schedule for each service.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at lease a reasonable possibility that recorded estimates will change 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 is a discount from established charges.

4. MISCELLANEOUS RECEIVABLE

Miscellaneous receivable represent loans under various loan arrangements. The loans are to be repaid in varying monthly installments including interest at 7.0%. A summary of the amounts outstanding is as follows:

	December 31,	
	2003	**2002**
Gross notes and loans receivable	$ 132,292	$ 102,720
Less: Current Portion	(100,792)	(28,511)
Long term portion	**$ 31,500**	**$ 74,209**

5. PHYSICIAN INCOME GUARANTEES AND NOTE RECEIVABLE

The Hospital has provided a loan to a physician to guarantee certain net practice income levels providing financial assistance during the initial stages of their practice development. The amounts advanced to the physician accrue interest at minimum applicable federal rate with portions eligible for forgiveness at the completion of the income guarantee portion of the contract. The notes are collateralized by the physician’s equipment.

5. PHYSICIAN INCOME GUARANTEES AND NOTE RECEIVABLE (continued)

The amount due to the Hospital from the physician in connection with these guarantees is recorded in the financial statements as a notes receivable. As of December 31, 2003 and 2002, the notes receivable was $101,098 and $102,077, respectively. The loans may be forgiven over time based upon various service or performance criteria. For the years ended December 31, 2003 and 2002, the Hospital had not forgiven or expensed any amounts.

Also during 2003 the Hospital provided $129,996 in physician income guarantees. Maximum future income guarantees at December 31, 2003 is approximately $64,998.

6. ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use is set forth in the following table.

	December 31, 2003	December 31, 2002
Internally designated for future capital improvements:		
Cash and cash equivalents	$ 146,825	$ 124,394
Certificates of deposit	1,580,000	1,580,000
Investments in common stock	531,720	436,800
Miscellaneous assets	146,000	146,000
Total assets limited as to use	**$ 2,404,545**	**$ 2,287,194**
Assets limited as to use - current portion	$ 109,451	$ 115,523
Assets limited as to use - long term portion	2,295,094	2,171,671
Total assets limited as to use	**$ 2,404,545**	**$ 2,287,194**

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

2003	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 17,500	$ 142,778	$ (500)	$ 159,778
Construction in Progress	100,219	588,525	(441,117)	247,626
Total Capital Assets not being depreciated	117,719	731,303	(441,617)	407,404

7. PROPERTY AND EQUIPMENT (continued)

2003	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Land and Land Improvements	248,677	0	0	248,677
Building and Fixed Equipment	3,808,324	13,809	0	3,822,133
Furniture and Fixture	5,458,392	459,332	0	5,917,725
Capital Leases	396,473	0	0	396,473
Rehabilitation Center	898,169	0	0	898,169
Contractual Equipment	13,903	0	0	13,903
Total Capital Assets being depreciated	10,823,938	473,141	0	11,297,080
Less Accumulated Depreciation	(7,212,228)	(603,064)	0	(7,815,292)
Total Capital Assets being depreciated, net	3,611,710	(129,923)	0	3,481,788
Total Capital Assets, Net	**$ 3,729,429**	**$ 601,380**	**$ (441,617)**	**$ 3,889,192**

2002	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 17,500	$ 0	$ 0	$ 17,500
Construction in Progress	81,446	115,882	(97,109)	100,219
Total Capital Assets not being depreciated	98,946	115,882	(97,109)	117,719
Capital Assets Being Depreciated:				
Land and Land Improvements	248,677	0	0	248,677
Building and Fixed Equipment	3,698,735	109,589	0	3,808,324
Furniture and Fixtures	5,195,368	309,253	(46,229)	5,458,392
Capital Leases	396,473	0	0	396,473
Rehabilitation Center	898,169	0	0	898,169
Contractual Equipment	13,903	0	0	13,903
Total Capital Assets being depreciated	10,451,325	418,842	(46,229)	10,823,938
Less Accumulated Depreciation	(6,602,283)	(610,923)	978	(7,212,228)
Total Capital Assets being depreciated, net	3,849,042	(192,081)	(45,251)	3,611,710
Total Capital Assets, Net	**$ 3,947,988**	**$ (76,199)**	**$ (142,360)**	**$ 3,729,429**

Depreciation and amortization totaled $603,064 in 2003 and $606,424 in 2002.

8. LONG-TERM DEBT AND LEASES

	December 31, 2003	December 31, 2002
Note payable to the Hicksville Bank, December 14, 1999, due in monthly installments of principal plus interest at 4.85% maturing December 2014 and collateralized by 16,800 shares of Empire Banc Stock.	$ 638,317	$ 681,722
Obligations under capital lease	45,857	126,279
	684,174	808,001
Less: current portion	(91,331)	(129,027)
Long term portion	**$ 592,843**	**$ 678,974**

The Hospital has entered into various non-cancelable lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 4.0% to 5.1%. They expire at various times through 2004 and are collateralized by the equipment leased.

	December 31, 2003	December 31, 2002
Cost of equipment under capital lease	$ 396,473	$ 396,473
Accumulated amortization	(388,140)	(337,257)
Net carrying amount	$ 8,333	$ 59,216

Minimum payments on these obligations to maturity as of December 31, 2003 are as follows:

	Long-Term Debt	Capital Leases	Total
2004	$ 75,513	$ 46,293	$ 121,806
2005	75,513	0	75,513
2006	75,513	0	75,513
2007	75,513	0	75,513
2008	75,513	0	75,513
2009-2013	371,460	0	371,460
2014	74,293	0	74,293
Subtotal	823,318	46,293	869,611
Less amount representing interest	(185,001)	(436)	(185,437)
Total	**$ 638,317**	**$ 45,857**	**$ 684,174**

The Hospital's long-term debt and capital leases are stated at the historical amount which approximates the fair value at December 31, 2003 and 2002. The current rates and terms offered to the Hospital are comparable to the weighted averaged interest rates and terms of the current outstanding long-term debt and capital leases.

9. LINE OF CREDIT

The Hospital has a line of credit with a bank in the amount of $350,000. The line carries a 4.90% rate of interest and requires monthly interest payments. As of December 31, 2003 and 2002 the Hospital had no balance borrowed against the line. The loan is secured by investments of the Hospital.

10. CHARITY CARE

The Hospital provides uncompensated care to indigent patients. 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 it charity care policy. Charges foregone for services rendered under the Hospital's charity care policy amount to approximately $64,137 and $99,116 in 2003 and 2002, respectively.

11. PENSION PLANS

Public Employees Retirement System

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43251-4642 or by calling 614-222-6705 or 1-800-222-7377.

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the Hospital is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2003, 2002, and 2001 were approximately $577,171, $563,850, and $523,509.

12. POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Public Employees Retirement System of Ohio ("System"), the System provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary service recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 12 – Pension Plans, the employer contribution rate to the System was 13.55% of covered payroll. Of covered payroll, 5.0% was the portion that was used to fund health care in 2002, the latest information available.

12. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

The Other Post-Employment Benefits (OPEB) is a standardized disclosure measure of the present value of OPEB adjusted for the effects of payroll increases and health care premium increases. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due. The System does not make separate measurements of assets and OPEB for individual employers.

As of December 31, 2001 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

13. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$30,375 for 2003 and \$24,246 for 2002. Advertising expenses are included as operating expenses in the financial statements.

14. 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. At December 31, 2003 and 2002, the estimated amount of these liabilities, included in the Hospital's other accrued expenses, was \$59,726 and \$33,726, respectively. This liability is the Hospital's best estimate based on available data. Changes in the reported balances of claims liabilities for 2003 and 2002 resulted from the following:

Year	January 1,	Changes in Estimates	Claim Payments	December 31,
2003	$ 33,726	$ 682,766	$ 708,766	$ 59,726
2002	$ 40,000	$ 584,595	$ 578,321	$ 33,726

The Hospital has purchased occurrence-based insurance to protect itself against losses from medical malpractice claims. The policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits of \$3,000,000 per individual claims and \$5,000,000 in the annual aggregate.

The Hospital is involved in various pending claims and lawsuits. Hospital's management does not believe that the results of any pending or threatened proceedings or claims, or any amounts that may be required to pay by reason thereof, will have a material, adverse effect on the Hospital's financial condition, results of operation or cash flows of the Hospital.

15. RELATED ORGANIZATIONS

Community Memorial Hospital – The operations of the Community Memorial Hospital (component unit) are controlled by the Board of Hospital Governors under the authority of Section 513.16. The oversight authority of the Hospital consists of six members, one elector from each township and three electors-at-large from the Hospital District, one of whom is required to be a doctor of medicine, two are appointed by the Hospital District. The Hospital District serves as the appropriating authority and can also levy taxes for the Board of Hospital Governors. The operations of the Community Memorial Hospital are accounted for as a blended component unit.

Management believes the financial statements included in this report represent all of the funds of the Hospital District over which the Board has the ability to exercise direct operating control.

16. AFFILIATION

On July 23, 2003 the Hospital District entered into an affiliation agreement with IOM Health System, LP d/b/a Lutheran Health Network. The affiliation is for purposes of collaboration for expanded development and integration of services to residents of the Hicksville area. The affiliation does not lead to ownership or management of either organization by the other. The agreement is in effect for a period of three years, and may be renewed by mutual agreement of both parties.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

May 4, 2004

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Mark Milford Hicksville Joint Township Hospital District, as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 4, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Mark Milford Hicksville Joint Township Hospital District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we also noted an immaterial instance of noncompliance that we have reported to management of Mark Milford Hicksville Joint Township Hospital in a separate letter dated May 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Mark Milford Hicksville Joint Township Hospital District in a separate letter dated May 4, 2004.

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

Rea & Associates, Inc.

Auditor of State
Betty Montgomery

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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
OCTOBER 14, 2004