

**Mark Milford Hicksville
Joint Township Hospital District**

FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003



**Auditor of State
Betty Montgomery**

Board of Directors
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 Blue & Co., LLC for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 5, 2005

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MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

TABLE OF CONTENTS DECEMBER 31, 2004 AND 2003

Page

Report of Independent Auditor 1

Required Supplementary Information

Management's Discussion and Analysis (Unaudited).....i-v

Financial Statements

Balance Sheets 3

Statements of Income and Changes in Net Assets..... 5

Statements of Cash Flows 6

Notes to Financial Statements 7

Report on Internal Control Over Financial Reporting and Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards.....17

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. 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 2004, total assets increased \$224,853 over 2003 levels. Net accounts receivable increased \$604,434. Net days revenue in accounts receivable was 65 days at December 31, 2004, compared to 45 days at December 31, 2003.
- Total liabilities decreased \$259,270; current liabilities decreased \$211,458; other and long-term liabilities decreased \$47,812 from December 31, 2003 to December 31, 2004.
- Net cash provided by operating activities was \$384,719 in 2004 compared to \$1,200,833 in 2003. The change is primarily due to an increase in patient accounts receivable of approximately \$600,000.

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 whole.

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

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

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

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

The Balance Sheet, Statement of Income and Changes in Net Assets and cash flows, provide an indication of the Hospital's financial health. The Balance Sheet includes 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 Statement of Income and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Statement of Cash Flows report the sources and uses of cash during the year.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Hospital

The Hospital's net assets increased from \$7,937,127 in 2003 to \$8,421,250 in 2004. Table 1 provides a summary of the Hospital's balance sheet for 2004 compared to 2003.

Table 1
Net Assets

	2004	2003
Assets		
Current assets	\$ 3,705,763	\$ 3,695,692
Assets whose use is limited	2,340,658	2,149,095
Capital assets	4,107,296	4,035,192
Miscellaneous receivable, net of current	37,282	31,500
Notes receivable & investment	46,430	101,097
Total assets	<u>10,237,429</u>	<u>10,012,576</u>
Liabilities		
Current liabilities	1,271,148	1,482,606
Long-term	545,031	592,843
Total liabilities	<u>1,816,179</u>	<u>2,075,449</u>
Net assets		
Invested in capital assets		
net of related debt	3,514,449	3,205,018
Unrestricted	4,906,801	4,732,109
Total net assets	<u>\$ 8,421,250</u>	<u>\$ 7,937,127</u>

Capital Assets

Capital assets increased from \$4,035,192 to \$4,107,296 in 2004. The increase relates to \$695,652 in capital additions, offset by \$593,284 in depreciation expense.

Debt

At December 31, 2004, the Hospital had \$592,847 of debt outstanding as detailed in footnote 6. The Hospital issued no new debt on 2004 or 2003.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2004 compared to 2003.

Table 2
Revenues and Expenses

	2004	2003
Revenue		
Net patient services revenue	\$ 10,398,833	\$ 10,183,540
Operating expenses		
Salaries and wages	3,988,985	3,513,589
Purchased services	1,636,071	1,661,255
Employee benefits	1,208,061	1,360,999
Physician office	644,081	833,001
Physician services	820,516	776,758
Depreciation and amortization	593,284	603,064
Supply expense	650,112	598,809
Maintenance and repair	187,496	192,619
Utilities	168,202	169,425
Miscellaneous	191,721	163,185
Insurance	161,287	96,084
Total expenses	<u>10,249,816</u>	<u>9,968,788</u>
Operating income	149,017	214,752
Non-operating revenue (expenses)		
Investment and other income, net	136,674	116,357
Changes in unrealized gains and losses	224,279	94,920
Interest expense	(25,847)	(36,343)
Increase in net assets	<u>\$ 484,123</u>	<u>\$ 389,686</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Patient Service Revenues

Compared to 2003, net patient service revenue increased \$215,293 or 2.1%

Gross patient service revenue was virtually unchanged from 2003. On January 1, 2004, the Hospital Board of Trustees approved a 3% price increase. Inpatient revenue decreased approximately \$270,000 during 2004 while outpatient revenue increased approximately \$370,000, consistent with the industry trend of shifting healthcare services to an outpatient basis. The increase in outpatient revenue was driven by the operating room, laboratory, pharmacy and CAT scan.

While revenue increased 2.1% during 2004, expenses increased 2.8%. The Hospital had 113 full-time equivalents in 2004 representing an increase of two from 2003. Wage increases continued to put pressure on the Hospital in 2004.

Inpatient Business Activity

Total patient days remained relatively steady in 2004. Declines in maternity and nursery were offset by increases in the medical unit.

Table 3
Patient Days

Unit	2004 Patient Days	2003 Patient Days
Medical	1,124	1,063
Surgical	22	21
Pediatrics	38	40
Swing Bed	716	722
Maternity	179	192
Nursery	142	163
Total	<u>2,221</u>	<u>2,201</u>

Outpatient Business Activity

The Hospital's outpatient business recorded an increase of \$368,333 or 4% in 2004. 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 23% in 2004, compared to 25% in 2003.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Charity care for 2004 decreased to \$406,094 from \$432,162 in 2003. 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 2004, the Hospital's Care Assurance distributions were \$179,734 as compared to the 2003 amount received of \$216,590. The Hospital also received Upper Payment Limits payments of \$180,108 and \$38,732 during 2004 and 2003, respectively.

Operating Expenses

Total operating expenses in 2004 exceeded 2003 levels by \$281,028 or 2.8%.

The largest increases in operating expenses in 2004 over 2003 level are reflected in salaries and benefits.

Non-operating Revenues (Expenses)

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

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2005-operating budget at their November 2004 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 \$440,226 which represents a 3.8% operating margin.



REPORT OF INDEPENDENT AUDITOR

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

We have audited the accompanying balance sheet of Mark Milford Hicksville Joint Township Hospital District, a component unit of Defiance County, Ohio, as of December 31, 2004, and the related statements of income and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Mark Milford Hicksville Joint Township Hospital District as of December 31, 2003 were audited by other auditors whose report date May 4, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

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 as of December 31, 2004, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Blue & Co., LLC

March 9, 2005

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEETS DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$ 503,039	\$ 553,135
Investments	962,159	1,141,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$393,000 in 2004 and \$266,000 in 2003	1,894,872	1,290,438
Estimated third-party settlements	-	327,000
Current portion of miscellaneous receivables	20,327	100,792
Supplies Inventory	93,186	93,841
Prepaid expenses	122,245	80,035
Assets limited as to use - current portion	109,935	109,451
Total current assets	<u>3,705,763</u>	<u>3,695,692</u>
Assets limited as to use		
Internally Designated	2,450,593	2,258,546
Less amount required to meet current obligations	<u>(109,935)</u>	<u>(109,451)</u>
	2,340,658	2,149,095
Property and equipment, net	4,107,296	4,035,192
Miscellaneous receivables, net of current portion	37,282	31,500
Note receivable	46,430	101,097
	<u>4,191,008</u>	<u>4,167,789</u>
Total assets	<u>\$ 10,237,429</u>	<u>\$ 10,012,576</u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

BALANCE SHEETS DECEMBER 31, 2004 AND 2003

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current liabilities		
Current portion of long-term debt	\$ 47,816	\$ 91,331
Accounts payable	466,559	896,134
Accrued payroll	404,555	275,173
Estimated third-party settlements	106,061	-
Compensated absences	246,157	219,968
Total current liabilities	<u>1,271,148</u>	<u>1,482,606</u>
Long-term debt, less current portion	<u>545,031</u>	<u>592,843</u>
Total liabilities	1,816,179	2,075,449
Net assets		
Invested in capital assets, net of related debt	3,514,449	3,351,018
Unrestricted	4,906,801	4,586,109
Total net assets	<u>8,421,250</u>	<u>7,937,127</u>
Total liabilities and net assets	<u>\$ 10,237,429</u>	<u>\$ 10,012,576</u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

STATEMENTS OF INCOME AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Revenue		
Net patient service revenue	\$ 10,398,833	\$ 10,183,540
Expenses		
Salaries and wages	3,988,985	3,513,589
Employee Benefits	1,208,061	1,360,999
Physician Services	820,516	776,758
Purchased services	1,636,071	1,661,255
Supply Expense	650,112	598,809
Maintenance and repair	187,496	192,619
Utilities	168,202	169,425
Insurance	161,287	96,084
Miscellaneous	191,721	163,185
Depreciation and amortization	593,284	603,064
Physician offices	644,081	833,001
Total operating expenses	<u>10,249,816</u>	<u>9,968,788</u>
Operating income	149,017	214,752
Non-operating revenues (expenses)		
Investment and other income, net	136,674	116,357
Interest expense	(25,847)	(36,343)
Change in net unrealized gains and losses	224,279	94,920
Total non-operating revenues (expenses)	<u>335,106</u>	<u>174,934</u>
 Increase in net assets	 <u>\$ 484,123</u>	 <u>\$ 389,686</u>

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 10,227,460	\$ 10,446,385
Cash paid to suppliers for services and goods	(4,801,266)	(4,370,994)
Cash payments to employees for services	(5,041,475)	(4,874,588)
Net cash from operating activities	384,719	1,200,803
Cash flows from capital and related financing activities		
Principal payments on long-term debt	(91,327)	(123,827)
Acquisitions and construction of capital assets	(695,652)	(762,827)
Interest paid on capital related debt and capital leases	(25,847)	(36,343)
Net cash from capital and related financing activities	(812,826)	(922,997)
Cash flows from investing activities		
Other changes in investments and assets whose use is limited, net	63,793	-
Interest on investments	83,151	93,559
Other non-operating income	97,299	22,798
Net cash from investing activities	244,243	116,357
Net change in cash and cash equivalents	(183,864)	394,163
Cash and cash equivalents, beginning of year	699,960	305,797
Cash and cash equivalents, end of year	\$ 516,096	\$ 699,960
Cash and cash equivalents include the following		
Cash and equivalents	\$ 503,039	\$ 553,135
Assets limited as to use - cash and cash equivalents		
Funds available for future construction and equipment	13,087	146,825
Total cash and cash equivalents	\$ 516,126	\$ 699,960
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 149,017	\$ 214,752
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	593,284	603,064
Provision for bad debts	309,301	245,648
Changes in assets and liabilities		
Patient accounts receivable	(913,735)	(290,317)
Estimated third-party settlements	433,061	90,423
Other receivables	129,350	(28,593)
Inventories	655	(2,754)
Prepaid expenses	(42,210)	(22,269)
Accounts payable	(429,575)	326,839
Accrued expenses	155,571	64,010
Net cash from operating activities	\$ 384,719	\$ 1,200,803

See accompanying notes to financial statements.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Cash Equivalents

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

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Property and Equipment

Property, plant and equipment are reported on the basis of cost, except for donated items, which are recorded at fair value at the date of the donation. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The Hospital's statement of income and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonoperating items consists of investment income, unrealized gains/losses on investments, donations and interest expense. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. The estimated amount of compensated absences payable as termination payments is reported as a current liability in both 2004 and 2003.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Investments and Assets Limited as to Use

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

Inventories

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$406,000 and \$432,000 in 2004 and 2003, respectively.

Reclassifications

Certain reclassifications were made to the 2003 financial statements in order to conform to the 2004 presentation.

2. NET PATIENT SERVICE REVENUE

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

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

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 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 extremely 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 2001 and with Medicaid through 1999. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2004 and 2003, which Hospital management believes will approximate final settlements after audit by the respective agencies.

3. DEPOSITS AND INVESTMENTS

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

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

	2004		2003	
	Cash and Cash Equivalents	Assets limited as to use	Cash and Cash Equivalents	Assets limited as to use
Financial statements	\$ 1,465,198	\$ 2,450,593	\$ 1,694,135	\$ 2,258,545
Investments	(1,103,718)	(2,437,506)	(1,141,000)	(2,111,720)
Cash on hand	(910)	-	(1,010)	-
GASB 3 deposits	\$ 360,570	\$ 13,087	\$ 552,125	\$ 146,825

Deposits

At December 31, 2004 and 2003, the carrying amount of the Hospital's book deposits for all funds is \$3,159,491 and \$3,419,950 as compared to a bank balance of \$3,413,578 and \$3,526,861, respectively. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances, at December 31, 2004 and 2003, \$300,000 is covered by Federal insurance programs and the remaining amounts collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

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 that are neither insured nor registered. Category 2 includes investments that 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.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

	2004		2004	
	Category 2	Category 3	Reported Amount	Fair Value
Certificates of deposit	\$ -	\$ 1,681,506	\$ 1,681,506	\$ 1,681,506
Common stock	756,000	-	756,000	756,000
	<u>\$ 756,000</u>	<u>\$ 1,681,506</u>	<u>\$ 2,437,506</u>	<u>\$ 2,437,506</u>

	2003		2003	
	Category 2	Category 3	Reported Amount	Fair Value
Certificates of deposit	\$ -	\$ 1,580,000	\$ 1,580,000	\$ 1,580,000
Common stock	531,720	-	531,720	531,720
	<u>\$ 531,720</u>	<u>\$ 1,580,000</u>	<u>\$ 2,111,720</u>	<u>\$ 2,111,720</u>

Common stock with a fair value at its donation of \$248,000 and market value of \$756,000 and \$531,710, respectively at December 31, 2004 and 2003 is not readily traded on a quoted market; therefore, the year-end Market value is determined by valuation.

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31, 2004 and 2003 is as follows:

	2004	2003
Internally designated for future capital improvements		
Cash and cash equivalents	\$ 13,087	\$ 146,825
Certificate of deposit	1,681,506	1,580,000
Common stock	756,000	531,720
	<u>\$ 2,450,593</u>	<u>\$ 2,258,545</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

5. PROPERTY AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2004 and 2003:

2004	12/31/2003	Increases	Decreases	12/31/2004
Land	\$ 176,778	\$ -	\$ -	\$ 176,778
Construction in progress	247,627	190,571	-	438,198
Land and land improvements	264,927	3,200	-	268,127
Building and fixed equipment	3,909,883	10,126	-	3,920,009
Furniture and fixtures	5,942,724	491,755	(1,155,770)	5,278,709
Capital Leases	396,473	-	-	396,473
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>11,850,484</u>	<u>695,652</u>	<u>(1,155,770)</u>	<u>11,390,366</u>
Less accumulated depreciation	<u>(7,815,292)</u>	<u>(593,284)</u>	<u>1,125,506</u>	<u>(7,283,070)</u>
Total property and equipment, net	<u>\$ 4,035,192</u>	<u>\$ 102,368</u>	<u>\$ (30,264)</u>	<u>\$ 4,107,296</u>

2003	12/31/2002	Increases	Decreases	12/31/2003
Land	\$ 34,500	\$ 142,778	\$ (500)	\$ 176,778
Construction in progress	100,219	588,525	(441,117)	247,627
Land and land improvements	264,927	-	-	264,927
Building and fixed equipment	3,896,074	13,809	-	3,909,883
Furniture and fixtures	5,483,392	459,332	-	5,942,724
Capital Leases	396,473	-	-	396,473
Rehabilitation center	898,169	-	-	898,169
Contractual equipment	13,903	-	-	13,903
	<u>11,087,657</u>	<u>1,204,444</u>	<u>(441,617)</u>	<u>11,850,484</u>
Less accumulated depreciation	<u>(7,212,228)</u>	<u>(603,064)</u>	<u>-</u>	<u>(7,815,292)</u>
Total property and equipment, net	<u>\$ 3,875,429</u>	<u>\$ 601,380</u>	<u>\$ (441,617)</u>	<u>\$ 4,035,192</u>

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

6. LONG-TERM DEBT

Long term debt consists of the following:

	2004	2003
Note payable to bank, dated 12/14/99, due in monthly installments of principal plus interest at 4.85% maturing December 2014 and collateralized by certain investments	\$ 592,847	\$ 638,317
Obligations under capital lease	-	45,857
	592,847	684,174
Less current portion	(47,816)	(91,331)
	\$ 545,031	\$ 592,843

	Note payable to bank	Capital Leases	Total
December 31, 2003	\$ 638,317	\$ 45,857	\$ 684,174
Additions	-	-	-
Payments	45,470	45,857	91,327
December 31, 2004	\$ 592,847	\$ -	\$ 592,847
Amounts due within one year	\$ 47,816	\$ -	\$ 47,816

	Note payable to bank	Capital Leases	Total
December 31, 2002	\$ 681,725	\$ 126,276	\$ 808,001
Additions	-	-	-
Payments	43,408	80,419	123,827
December 31, 2003	\$ 638,317	\$ 45,857	\$ 684,174
Amounts due within one year	\$ 45,474	\$ 45,857	\$ 91,331

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Scheduled payments on long-term debt are as follows:

<u>Year ending</u>	<u>Principal payments</u>	<u>Interest payments</u>	<u>Total</u>
2005	\$ 47,816	\$ 27,697	\$ 75,513
2006	50,187	25,326	75,513
2007	52,676	22,837	75,513
2008	55,228	20,285	75,513
2009	58,027	17,486	75,513
2010 - 2014	<u>328,913</u>	<u>41,334</u>	<u>370,247</u>
Total	<u>\$ 592,847</u>	<u>\$ 154,965</u>	<u>\$ 747,812</u>

7. LINE OF CREDIT

The Hospital has a line of credit with a bank in the amount of \$350,000. The line carries a 4.9% rate of interest and requires monthly interest payments. At December 31, 2004 and 2003 the Hospital had no borrowings against the line. The line is secured by investments of the Hospital.

8. PENSION PLAN

All Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6705 or (800) 222-PERS.

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the years ended December 31, 2004, 2003 and 2002 were \$576,792, \$577,171 and \$563,850, respectively.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2004 and 2003 employer contribution rates of 13.55% used to fund healthcare was 4.0% and 5%, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

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

9. 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, 2004 and 2003, the estimated amount of these liabilities, included in accrued expenses was \$59,727 and \$59,727, respectively.

10. AFFILIATION

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



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

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

We have audited the financial statements of Mark Milford Hicksville Joint Township District, as of and for the years ended December 31, 2004, and have issued our report thereon dated March 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mark Milford Hicksville Joint Township Hospital District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 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 caused by error or fraud, 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 March 9, 2005.

Compliance and Other Matters

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 it compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 an should not be used by anyone other than those specified parties.

Blue & Co., LLC

March 9, 2005



**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
AUGUST 4, 2005**