MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

Consolidated Financial and Compliance Report
December 31, 2014

Arnett
Carbis
Toothman llp
CPAs & Advisors

Dave Yost · Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mark Milford Hicksville Joint Township Hospital District, Defiance County, prepared by Arnett Carbis Toothman, LLP, for the audit period January 1, 2014 through December 31, 2014. 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

July 16, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the balance sheet, as of December 31, 2014, and the related consolidated statements of operations and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of those consolidated financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mark Milford Hicksville Joint Township Hospital District and Subsidiary as of December 31, 2014, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The consolidated financial statements of the Organization, as of and for the year ended December 31, 2013, were audited by other auditors whose report dated April 29, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015, on our consideration of Mark Milford Hicksville Joint Township Hospital District and Subsidiary'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 for the year ended December 31, 2014. A similar report for the year ended December 31, 2013, dated April 29, 2014, which has not been included with the 2014 financial and compliance report was issued by other auditors. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arnett Carbis Toothman LLP

Charleston, West Virginia
May 22, 2015

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Mark Milford Hicksville Joint Township Hospital District and Subsidiary's financial performance provides an overview of the consolidated activities and operations of Community Memorial Hospital and Community Memorial Hospital Foundation, Inc. (collectively, the Organization) for the fiscal years ended December 31, 2014 and 2013. Please read it in conjunction with the Organization's consolidated financial statements, which begin on page 8. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Organization's net position decreased in 2014 and 2013 by $1,289 or 64% and $2,537 or 56%, respectively.
- The Organization reported operating losses of $866 and $2,020 in 2014 and 2013, respectively.
- Total revenues increased from 2014 to 2013 by $499 or 2%.
- The Organization made capital additions in 2014 totaling $424, of which $196 was funded from operations and $228 was financed through capital leases.

Using This Annual Report

The Organization's consolidated financial statements consist of three statements – a Consolidated Balance Sheet; a Consolidated Statement of Operations and Changes in Net Position; and a consolidated Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities of the Organization.

The Consolidated Balance Sheet and Statement of Operations and Changes in Net position

The analysis of the Organization's finances begins on page 4. One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better or worse off as a result of the year's activities?" The Consolidated Balance Sheet and Statement of Operations and Changes in Net Position report information about the Organization'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 Organization's net position and related changes. You can think of the Organization's net position – the difference between assets and liabilities – as one way to measure the Organization's financial health or financial position. Over time, increases or decreases in the Organization's net position are 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 Organization'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 Organization.

Consolidated Statement of Cash Flows

The final required statement is the Consolidated Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital related financing and capital and related financing, activities. 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?"

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net Position

The Organization's net position is the difference between its assets and liabilities reported on the Consolidated Balance Sheet on page 8. The Organization's net position decreased by $1,289 or 64% and $2,537 or 56% in 2014 and 2013, respectively, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net position (in thousands)

	2014	2013	2012
Assets			
Current assets	**$ 5,483**	$ 4,582	$ 6,823
Capital assets, net	**10,398**	11,331	12,436
Restricted and limited use assets	**494**	668	610
Other noncurrent assets	**1,515**	1,611	2,190
Total assets	**$ 17,890**	$ 18,192	$ 22,059
Liabilities			
Long-term obligations	**$ 11,798**	$ 11,947	$ 12,427
Interest rate swap	**930**	928	1,413
Current liabilities	**4,426**	3,293	3,658
Total liabilities	**$ 17,154**	$ 16,168	$ 17,498
Net Position			
Unrestricted	**$ 2,150**	$ 2,824	$ 4,640
Invested in capital assets, net of related debt	**(2,269)**	(1,267)	(551)
Restricted	**855**	467	472
Total net position	**$ 736**	$ 2,024	$ 4,561

A significant component of the Organization's assets is capital assets. Capital assets decreased by $932 or 8% in 2014 and decreased by $1,105 or 9% in 2013. Fixed assets acquired by the Organization either through direct purchase or capital lease were $424 in 2014 and $281 in 2013. These additions were offset by depreciation of $1,356 and $1,386 in 2014 and 2013, respectively. The decrease in assets from 2013 to 2014 primarily reflects depreciation expense in excess of capital expenditures.

Operating Results and Changes in the Organization's Net Position

Table 2 shows the change in revenues and expenses for 2014, 2013, and 2012.

Table 2: Operating Results and Changes in Net Position (in thousands)

	2014	2013	2012
Revenue:			
Net patient service revenue	**$ 23,102**	$ 23,123	$ 23,790
Other	**928**	408	2,386
Total operating revenue	**$ 24,030**	$ 23,531	$ 26,176

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

	2014	2013	2012
Expenses:			
Salaries and wages	**$ 11,314**	$ 11,903	$ 11,576
Employee benefits	**3,986**	3,383	3,485
Physician service	**1,209**	1,094	1,083
Purchased services	**2,579**	3,496	3,157
Supplies	**1,736**	1,601	1,779
Maintenance and repairs	**1,020**	1,038	693
Utilities	**708**	679	635
Depreciation and amortization	**1,356**	1,386	1,325
Insurance	**315**	317	350
Miscellaneous	**674**	654	662
Total operating expenses	**24,897**	25,551	24,745
Operating income (loss)	**(867)**	(2,020)	1,431
Nonoperating expenses	**(422)**	(516)	(538)
Excess (deficiency) of revenue over expenses	**$ (1,289)**	$ (2,536)	$ 893

Net patient service revenue decreased by $22 or 1% from 2014 to 2013.

Salaries and wages decreased 5% from 2013 to 2014 primarily due to a 4% decrease in total full-time equivalents. Employee benefits experienced a increase of 18% from 2013 and 2014 due primarily to an increase in employee health insurance claims.

Sources of Revenue

The Organization derives substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services by payor, for the years ended December 31, 2014 and 2013, respectively.

	2014	2013
Medicare	**45%**	48%
Commercial and other	**33%**	32%
Medicaid	**17%**	12%
Self-pay	**5%**	8%
	100%	100%

The Organization provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined by the related federal and state regulations. Provisions have been made in the consolidated financial statements for contractual adjustments which represent the difference between the standard charges for services and the actual or estimated reimbursement.

Operating Income

The first component of the overall change in the Organization's net position is its operating income (loss). Generally, operating income (loss) is the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Organization has reported an operating loss. Operating loss was $866 and $2,020 in 2014 and 2013, respectively.

The decrease in the Organization's total operating loss in 2014 of $1,153 or 57% from 2013 is the result of a 3% decrease in operating expenses due to a decrease in salaries and wages in purchased services. During 2014, the Organization increased gross charge rates 3% compared to 2013. Excluded from net patient service revenue are charges for patient service waived under the Organization's charity care policy. Charity care represents unreimbursed charges incurred by the Organization in providing uncompensated care to indigent patients. Based on established rates, charges of $278 and $500 were waived during 2014 and 2013, respectively.

The Organization provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Organization when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenue of the Organization.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) decreased due to changes in interest expense and investment income. The Organization's investment income resulted in a gain (loss) of $93 and $(65) in 2014 and 2013, respectively.

Cash Flows

Changes in the Organization's cash flows are consistent with changes in operating gains and non-operating gains and losses as discussed earlier. Non-cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net position. The Organization generated positive cash flows from operations in 2014 and 2013 of $1,063 and $1,248, respectively.

Capital Asset and Debt Administration

Capital Assets

The Organization had $10,399 and $11,331 invested in capital assets, net of accumulated depreciation in 2014 and 2013, respectively. The Organization acquired or constructed capital assets in the amount of $424 and $281 during 2014 and 2013, respectively.

Debt

The Organization had $12,667 and $12,598 in bonds and capital lease obligations outstanding at December 31, 2014 and 2013, respectively.

Contacting the Organization's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at 208 N. Columbus Street, Hicksville, Ohio 43526.

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

**CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013**

ASSETS AND DEFERRED OUTFLOWS	2014	2013
Current Assets		
Cash and cash equivalents	$ 1,282,597	$ 621,180
Investments	100,433	300,831
Patient accounts receivable, net of estimated uncollectables 2014 $3,747,000; 2013 $2,643,000	3,448,198	2,597,430
Estimated third-party payor settlements	5,742	595,941
Other receivables	26,215	38,066
Unconditional promises to give, current portion	16,996	25,680
Inventories	177,930	219,554
Prepaid expenses and other assets	424,630	183,362
Total current assets	5,482,741	4,582,044
Assets Limited as to Use	493,570	668,386
Capital Assets, net	10,398,554	11,330,873
Other Assets		
Unconditional promises to give, long-term	13,253	38,948
Other assets	571,408	644,318
Total other assets	584,661	683,266
Deferred Outflows	930,224	927,965
Total assets and deferred outflows	$ 17,889,750	$ 18,192,534

LIABILITIES AND NET POSITION	2014	2013
Current Liabilities		
Current portion of long-term debt	$ 869,510	$ 650,780
Accounts payable and accrued expenses	2,160,677	1,336,814
Accrued salaries, wages, and employee benefits	806,511	776,322
Compensated absences	588,976	528,938
Total current liabilities	4,425,674	3,292,854
Long-Term Debt, net of current portion	11,797,917	11,947,188
Interest Rate Swap	930,224	927,965
Total liabilities	17,153,815	16,168,007
Net Position (Deficit)		
Net investment in capital assets	(2,268,873)	(1,267,095)
Restricted	854,956	467,211
Unrestricted	2,149,852	2,824,411
Total net position	735,935	2,024,527
Total liabilities and net position	$ 17,889,750	$ 18,192,534

See 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, 2014 and 2013

	2014	2013
Operating revenues		
Net patient service revenue, net of provision for bad debts 2014 $1,995,836; and 2013 $1,737,771	**$ 23,101,872**	$ 23,123,465
Other operating revenue	**928,348**	407,761
Total operating revenues	**24,030,220**	23,531,226
Operating expenses		
Salaries and wages	**11,314,497**	11,903,293
Employee benefits	**3,985,634**	3,382,585
Physician service	**1,209,258**	1,093,502
Purchased services	**2,578,973**	3,495,704
Supplies	**1,736,455**	1,601,478
Maintenance and repairs	**1,019,577**	1,037,976
Utilities	**708,241**	679,013
Depreciation and amortization	**1,356,095**	1,386,096
Insurance	**314,672**	317,124
Miscellaneous	**673,317**	654,351
Total operating expenses	**24,896,719**	25,551,122
Operating loss	**(866,499)**	(2,019,896)
Nonoperating revenues (expenses)		
Investment and other income, net	**216,613**	123,338
Interest expense	**(638,706)**	(640,371)
Total nonoperating expenses	**(422,093)**	(517,033)
Change in net position	**(1,288,592)**	(2,536,929)
Net position, beginning of year	**2,024,527**	4,561,456
Net position, end of year	**$ 735,935**	$ 2,024,527

See Notes to Consolidated Financial Statements

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 22,887,533	$ 23,703,134
Cash paid to employees for wages and benefits	(15,209,904)	(15,536,033)
Cash paid to vendors for goods and services	(7,543,364)	(7,326,443)
Other receipts, net	928,348	407,761
Net cash provided by operating activities	1,062,613	1,248,419
Cash Flows from Capital and Related Financing Activities		
Repayment of long-term debt and capital leases	(657,414)	(583,449)
Interest paid on long-term debt and capital leases	(638,706)	(640,371)
Purchase of capital assets	(195,903)	(114,842)
New borrowings of long-term debt	499,000	28,129
Net cash used in capital and related financing activities	(993,023)	(1,310,533)
Cash Flows from Investing Activities		
Investment income	216,613	123,338
Net (increase) decrease in investments	74,446	(23,080)
Net cash provided by investing activities	291,059	100,258
Net increase in cash and cash equivalents	360,649	38,144
Cash and cash equivalents, beginning of year	1,491,228	1,453,084
Cash and cash equivalents, end of year	$ 1,851,877	$ 1,491,228
Reconciliation of cash and cash equivalents to the Statements of Net position:		
Cash and cash equivalents in current assets	$ 1,383,030	$ 922,011
Restricted cash and cash equivalents	468,847	569,217
Total cash and cash equivalents	$ 1,851,877	$ 1,491,228
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating loss	$ (866,499)	$ (2,019,896)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,356,095	1,386,096
Provision for bad debts	1,995,836	1,737,771
Changes in:		
Patient accounts receivable	(2,846,604)	(379,453)
Inventories, prepaid expenses, and other assets	(80,504)	1,574,975
Accounts payable and accrued expenses, accrued salaries, wages, and employee benefits	914,090	(272,425)
Estimated third-party payor settlements	590,199	(778,649)
Net cash provided by operating activities	$ 1,062,613	$ 1,248,419
Supplemental Disclosure of Noncash Financing Activities		
Assets acquired by capital lease	$ 227,873	$ 165,882
Changes in interest rate swap and deferred outflows	$ 2,259	$ (488,165)

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity: Mark Milford Hicksville Joint Township Hospital District and Subsidiary doing business as Community Memorial Hospital (the Hospital), was established for the purpose of exercising the rights and privileges conveyed to it by law. The Hospital is a hospital district created under provisions of Section 513.07 of the Ohio Revised Code. The Hospital operates under the direction of a nine-member board consisting of the township trustees of Mark, Milford, and Hicksville Townships. The Hospital is responsible for establishing, constructing, and maintaining a joint township district hospital or other hospital facilities for 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), a blended component unit the Hospital (collectively, the Organization). The Foundation exists solely to support the operations of the Hospital. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting: The Organization is reported as an enterprise fund under *Governmental Accounting Standards Board* (GASB) pronouncements. The Organization utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The Organization follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and AICPA Pronouncements*. This statement incorporated FASB and AICPA Pronouncements into the GASB authoritative literature issued on or before November 30, 1989, which did not conflict with or contradict GASB pronouncements.

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectable accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

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

Capital assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation over the expected useful lives of depreciable assets.

Amortization expense on capital leases is included in depreciation expense. 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 costing more than $1,500, or (3) a building or remodeling project with total costs in excess of $10,000.

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Organization's interest cost was capitalized in either 2014 or 2013.

Grants and contributions: From time to time, the Organization receives grants and contributions from governmental organizations, private individuals, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted are reported as other operating revenue and those restricted for a specific purpose are reported as nonoperating revenue Contributions that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Contributions restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted resources: When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

Net position: Net position of the Organization are classified in three components. *Net position 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. *Restricted expendable net position* are noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization, including amounts deposited with trustees as required by revenue bond indentures and reimbursement agreement. *Unrestricted net position* are remaining net position that do not meet the definition of *invested in capital assets net of related debt or restricted*.

Compensated absences: The Organization's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to a specified amount, to be carried over to the subsequent year. The estimated amount of vacation time payable for hours earned is reported as a current liability in 2014 and 2013. The Organization's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. The estimated amount of sick leave time payable for hours earned is reported as a current liability in 2014 and 2013.

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

Investments: The Organization's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds, and money market funds.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating revenue when earned.

Net patient service revenue and patient accounts receivable: Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third-party payors. Final adjustments are recorded in the period such amounts are finally determined.

Charity care: The Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The Organization 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 $278,000 in 2014 and $500,000 in 2013. The cost of caring for charity care patient for the years ended December 31, 2014 and 2013, was approximately $145,000 and $285,000, respectively. The Organization 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 $359,000 in 2014 and $355,000 in 2013. These amounts are reported as net patient service revenue on the consolidated statements of operations and changes in net position.

Operating revenues and expenses: The Organization's consolidated statements of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Organization's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Reclassifications: Certain 2013 amounts have been reclassified to conform to the 2014 presentation. These reclasses had no impact on previously reported net position (deficit).

Subsequent events: The Organization has evaluated subsequent events through May 22, 2015, the date on which the consolidated financial statements were available to be issued.

New or recent accounting pronouncements: In June 2012, the GASB issued GASB No. 68, *Accounting and Financial Reporting for Pensions,* which replaces GASB No. 27 and will be effective for years beginning after June 15, 2014. The statement calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability, plus the effect of changes in benefit terms on the net pension liability. More extensive note disclosures and required supplementary information also will be required of employers with defined benefit plans. This standard relates to the accounting and reporting of defined benefit pension plans.

In November 2013, the GASB issued GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which will be effective for years beginning after June 15, 2014. The statement amends previous guidance to require that, at transition, a government employer recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

GASB No. 72, *Fair Value Measurement and Application*, issued February 2015, relates to fair value measurements, applicable primarily to investments made by state and local governments and defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the new guidance, more extensive note disclosures are required to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. The new standard is effective for financial statements for periods beginning after June 15, 2015.

Note 2. Deposits and Investments and Investment Risks

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Organization's deposits may not be returned to it. The Organization's deposit policy for custodial risk is to require all deposits with financial institutions to be entirely insured or collateralized by securities held by financial institutions. At December 31, 2014, the carrying amount of the Organization's bank deposits for all funds is $1,394,332 as compared to a bank balance of $1,518,807. Of the bank balances at December 31, 2014, $850,701 is covered by federal insurance programs and $668,106 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Organization's name.

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2014 and 2013, is set forth in the following table. The Organization's investments included in assets limited as to use are categorized to give an indication of the level of risk assumed by the Organization. Investments with limited use are comprised of the following:

	2014	2013
Internally designated for operations and capital improvements:		
Cash and cash equivalents	**$ 13,067**	$ 115,779
Certificates of deposit	**25,547**	130,019
	38,614	245,798
Held by trustee under indenture agreement:		
Cash and cash equivalents	**271,547**	235,213
	271,547	235,213
Externally restricted under reimbursement agreement:		
Cash and cash equivalents	**75,772**	-
Externally restricted by donors:		
Cash and cash equivalents	**82,914**	88,206
Mutual funds	**24,723**	24,495
Equities	**-**	74,674
	107,637	187,375
Total	**$ 493,570**	$ 668,386

Investments

Investments stated at fair value at December 31, 2014 and 2013, include:

	2014	2013
Certificates of deposit	**$ 100,433**	$ 300,831

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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 changes in 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 any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in eligible institutions; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; certain no load money market mutual 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.

Note 3. Patient Accounts Receivable and Accrued Salaries, Wages and Employee Benefits

Patient accounts receivable and accrued expenses reported as current liabilities at December 31, 2014 and 2013, consisted of these amounts:

Patient Accounts Receivable	**2014**	2013
Patient accounts receivable	**$ 10,512,834**	$ 7,088,359
Allowance for uncollectable accounts	**(3,746,654)**	(2,642,826)
Allowance for contractual adjustments	**(3,317,982)**	(1,848,103)
Patient accounts receivable, net	**$ 3,448,198**	$ 2,597,430

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2014 and 2013, is as follows:

	2014	2013
Other third-party payors	**41%**	40%
Self-pay	**38%**	44%
Medicare	**18%**	13%
Medicaid	**3%**	3%
	100%	100%

Accrued Salaries, Wages, and Employee Benefits	**2014**	2013
Payroll and related items	**$ 545,420**	$ 505,672
Self-insured benefits	**93,561**	101,286
Health insurance claims	**167,530**	169,364
	$ 806,511	$ 776,322

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Note 4. Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	December 31, 2013	**Additions**	**Transfers**	**Retirements**	**December 31, 2014**
Capital Assets					
Land improvements	**$ 329,346**	**$ -**	**$ -**	**$ -**	**$ 329,346**
Buildings and equipment	**27,772,458**	**36,394**	**36,153**	**-**	**27,845,005**
Land	**176,778**	**-**	**-**	**-**	**176,778**
Construction in process	**46,746**	**387,382**	**(36,153)**	**-**	**397,975**
Total capital assets	**28,325,328**	**423,776**	**-**	**-**	**28,749,104**
Less accumulated depreciation and amortization for:					
Land improvements	**(304,067)**	**(4,200)**	**-**	**-**	**(308,267)**
Buildings and equipment	**(16,690,388)**	**(1,351,895)**	**-**	**-**	**(18,042,283)**
Total accumulated depreciation and amortization	**(16,994,455)**	**(1,356,095)**	**-**	**-**	**(18,350,550)**
Capital assets, net	**$ 11,330,873**	**$ (932,319)**	**$ -**	**$ -**	**$ 10,398,554**

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

	2014	2013
Cost of equipment under capital lease	**$ 2,013,507**	$ 1,767,167
Accumulated amortization	**887,156**	564,236
Net carrying amount	**$ 1,126,351**	$ 1,202,931

Depreciation and amortization expense for the years ended December 31, 2014 and 2013, totaled $1,356,095 and $1,386,096, respectively.

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Note 5. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare and Medicaid programs for the settlement of current and prior year cost reports. The balances at December 31, 2014 and 2013, consist of estimated amounts as follows:

	2014	2013
2011	**$ -**	$ (19,075)
2012	**9,252**	64,930
2013	**(3,510)**	550,086
2014	**-**	-
Total	**$ 5,742**	$ 595,941

Note 6. Long-Term Debt, Capital Lease Obligations and Other Noncurrent Liabilities

A schedule of changes in the Organization's noncurrent liabilities for 2014 and 2013 is as follows:

	December 31, 2013	**Additions**	**Reductions**	**December 31, 2014**	**Amounts Due within 1 year**
Long-Term Debt:					
2005 bonds	**$ 5,960,000**	**$ -**	**$ 135,000**	**$ 5,825,000**	**$ 140,000**
2007 bonds	**5,303,000**	**-**	**134,000**	**5,169,000**	**139,000**
Capital lease obligations	**1,309,318**	**227,873**	**359,997**	**1,177,194**	**419,732**
Notes payable, bank	**25,650**	**499,000**	**28,417**	**496,233**	**170,778**
	12,597,968	**726,873**	**657,414**	**12,667,427**	**869,510**
Other noncurrent liabilities:					
Interest rate swap	**927,965**	**2,259**	**-**	**930,224**	**-**
Total noncurrent liabilities	**$ 13,525,933**	**$ 729,132**	**$ 657,414**	**$ 13,597,651**	**$ 869,510**

	December 31, 2012	Additions	Reductions	December 31, 2013	Amounts due within 1 year
Long-Term Debt:					
2005 bonds	$ 6,085,000	$ -	$ 125,000	$ 5,960,000	$ 135,000
2007 bonds	5,431,000	-	128,000	5,303,000	134,000
Capital lease obligations	1,471,406	165,882	327,970	1,309,318	367,940
Notes payable, bank	-	28,129	2,479	25,650	13,840
	12,987,406	194,011	583,449	12,597,968	650,780
Other noncurrent liabilities					
Interest rate swap	1,413,130	-	485,165	927,965	-
Total noncurrent liabilities	$ 14,400,536	$ 194,011	$ 1,068,614	$ 13,525,933	$ 650,780

A description of long-term debt at December 31, 2014 and 2013, follows:

	2014	2013
2005 County Hospital Facilities Revenue Bonds (2005 Bonds), adjustable interest rate (0.21% at December 31, 2014 and an effective rate of 4.46%), due December 1, 2037, mandatory annual redemption beginning December 1, 2008, in installments ranging from $95,000 to $410,000 plus interest	**$ 5,825,000**	$ 5,960,000

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	2014	2013
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	**5,169,000**	5,303,000
Capital lease obligation, 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	**839,241**	1,153,867
Note payable, bank, monthly principal and interest payments of $1,231 through October 2015. Interest at 4.75%, secured by the vehicle	**12,045**	25,650
Capital lease obligation - monthly principal and interest payments of $4,011 through May 2017. Interest at 3.25%, secured by the equipment leased	**111,723**	155,451
Capital lease obligation - monthly principal and interest payments of $548 through October 2019. Interest at 0.00%, secured by the equipment leased	**31,230**	-
Capital lease obligation - monthly principal and interest payments of $3,050 through January 2022. Interest at 8.11%, secured by the equipment leased	**195,000**	-
Note payable, bank, due in monthly installments of $14,812 through November 2017 with fixed interest at 4.36%, secured by related equipment	**484,188**	-
	12,667,427	12,597,968
Less current portion	**(869,510)**	(650,780)
Long-term debt	**$ 11,797,917**	$ 11,947,188

Minimum payments on these obligations to maturity as of December 31, 2014, follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	$ 449,778	$ 492,295	$ 419,732	$ 49,334
2016	456,217	472,574	441,752	30,363
2017	465,238	452,298	177,342	13,094
2018	322,000	435,449	33,887	9,288
2019	333,000	421,613	34,541	6,989
Thereafter	9,464,000	4,429,963	69,940	6,311
	$ 11,490,233	$ 6,704,192	$ 1,177,194	$ 115,379

During 2005, the Organization obtained $12,600,000 of Adjustable Rate Demand County Hospital Facilities Revenue Bonds, Series 2005 (2005 Bonds), for constructing, equipping, installing, and improving additional Hospital facilities. The bonds are payable in varying annual installments beginning December 2008. The bonds mature December 2037. The adjustable interest rate at December 31, 2014, was 0.38%.

The debt is collateralized by total revenues and letter of credit issued by Fifth Third Bank. The letter of credit expires January 20, 2016. In the event of a draw on the letter of credit due to troubled remarketing of the bonds by the bank, the Organization has until the expiration date of the letter of credit to reimburse the bank. In accordance with the Reimbursement Agreement as amended in November 2014, the Organization is required to maintain debt service reserves of $800,000. Of this reserve, $400,000 must be maintained in a bank deposit account with the remaining balance being held in a separate Reserve Account. Monthly deposits of $25,000 must be made into the Reserve Account until the total amount on deposit equals the entire debt service reserves stated above. At December 31, 2014, the Reserve Account had a balance of $75,772 and is included within assets limited as to use in the accompanying balance sheets. The $400,000 bank balance is included within cash and cash equivalents in the accompanying balance sheets at December 31, 2014. In addition, the Organization must meet various financial covenants related to financial performance.

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

The Organization is required to meet certain financial covenants including debt service and liquidity requirements. At December 31, 2014, the Organization was in compliance with the covenants.

Note 7. Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payment to the Organization at amounts different from its established rates. The Organization is designated as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization’s billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Organization is a Critical Access Hospital. Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are based on fee schedules.

The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. The Organization's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Organization’s charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement.

Other payors: The Organization has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

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.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Gross patient service revenue	**$ 46,881,725**	$ 44,870,220
Less third-party allowances	**21,505,948**	19,508,843
Less charity care	**278,069**	500,141
Less bad debts	**1,995,836**	1,737,771
Net patient service revenue	**$ 23,101,872**	$ 23,123,465

Note 8. 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 provides retirement and disability benefits, annual cost-of-living adjustments, health care benefits, and death benefits to plan members and beneficiaries. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. OPERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-PERS (7377).

Funding Policy

The required actuarially-determined contribution rates for the Organization and for employees are 14% and 10%, respectively. The Organization's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2014	$ 1,481,005
2013	$ 1,493,031
2012	$ 1,507,623

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2014 employer contribution rates of 14.0% used to fund health care was 2.0% during calendar year 2014. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

Organization contributions made to fund post-employment benefits approximated $211,000 and $107,000 for 2014 and 2013, 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 the passage of pension legislation under SB 343 and the approved health care charges, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

Note 9. Professional Liability Insurance

The Organization has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the aggregate. In addition, the Organization has umbrella coverage of $5,000,000 per occurrence and $5,000,000 in the aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than $1,000,000 per occurrence and $3,000,000 in the aggregate. The Organization's coverage is on a claims made basis.

Note 10. Risk Management – Health Insurance

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 $2,107,694 and $1,576,041 for 2014 and 2013, respectively.

Note 11. Affiliation

The Organization had an affiliation agreement with IOM Health System, LPA d/b/a Lutheran Health Network. The affiliation was for the purposes of collaboration for expanded development and integration of services to residents of the Hicksville area. The affiliation did not lead to ownership or management of either organization by the other. The agreement was renewable for three year periods. The affiliation was terminated in 2014.

Note 12. Fair Value of Financial Instruments

The *Fair Value Measurements and Disclosures Topic* of the Financial Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

This Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value Measurements

Following are description of the valuation methodologies used for assets and a liability measured at fair value on a recurring basis and recognized on the accompanying consolidated balance sheets, as well as the general classification of such assets and liability pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

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

Assets at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis.

December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	**$ 1,552,826**	**$ -**	**$ -**	**$ 1,552,826**
Mutual funds				
Corporate bonds	**12,393**	**-**	**-**	**12,393**
Large blend	**6,088**	**-**	**-**	**6,088**
Large growth	**6,242**	**-**	**-**	**6,242**
Total	**$ 1,577,549**	**$ -**	**$ -**	**1,577,549**
Certificate of deposit				**299,051**
Total investments				**$ 1,876,600**
Deferred outflows and liabilities:				
Interest rate swap agreement	**$ -**	**$ 930,224**	**$ -**	**$ 930,224**

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 887,480	$ -	$ -	$ 887,480
Equities				
Telecommunication	22,176	-	-	22,176
Energy	4,861	-	-	4,861
Financial services	4,213	-	-	4,213
Real estate	39,190	-	-	39,190
Utilities	4,234	-	-	4,234

December 31, 2013	Level 1	Level 2	Level 3	Total
Mutual funds				
Corporate bonds	12,517	-	-	12,517
Large blend	5,906	-	-	5,906
Large growth	6,072	-	-	6,072
Total	$ 986,649	$ -	$ -	986,649
Certificate of deposit				603,748
Total investments				$ 1,590,397
Deferred outflows and liabilities:				
Interest rate swap agreement	$ -	$ 927,965	$ -	$ 927,965

Assets Recorded at Fair Value on a Nonrecurring Basis

The Organization has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

Note 13. Electronic Health Records

The Health Information Technology for Economic and Clinical Health Act (“HITECH Act”) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. The Organization is progressing towards compliance with the EHR meaningful use requirements of the HITECH Act in time to qualify for the available Medicare and Medicaid incentive focused on successfully designing and implementing EHR solutions along with costs associated with the hardware and software components of the project.

During the years ended December 31, 2014 and 2013, the Organization received and recognized in other operating revenue $201,900 and $0, respectively, related to Medicare and Medicaid EHR incentive payments. The Organization intends to apply for additional funds in the coming years. Any funds from future applications are dependent on reaching certain metrics and various stages of “meaningful use” as defined by the ARRA.

Note 14. Lease Commitments and Rental Expense

Operating leases consist of several cancelable and noncancelable leasing arrangements expiring at various dates through 2016 with renewal options thereafter. Aggregate rental expense under operating lease agreements was approximately $233,000 and $237,000 for the years ended December 31, 2014 and 2013, respectively. For the year ended December 31, 2014, future minimum lease payments under noncancelable operating lease agreements were as follows:

Years ending December 31,	Minimum Lease Payments
2015	$ 233,403
2016	5,088
Total minimum lease payments	$ 238,491

Note 15. Interest Rate Risk Management

The Organization uses variable-rate debt to finance its capital needs. The debt obligations expose the Organization to variability in interest payments due to changes in interest rates. Conversely, fixed rate debt obligations can be more expensive in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management, from time to time, enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

Contract

The Organization has an interest-rate related derivative instrument in effect at December 2014 and 2013 to manage the exposure on its debt instruments. The Organization does not enter into derivative instruments for any purpose other than cash flow hedging purposes related to its debt.

Objective

In January 2006, the Organization entered into an interest rate swap agreement in the notional amount of $6,600,000 related to the Series 2005 Bonds (Note 6). The purpose of the swap was to convert the Organization's variable rate cash flow exposure on the debt obligations to fixed-rate cash flows. Under the terms of the interest rate swap, the Organization receives a variable interest rate payment in exchange for making fixed interest rate payments (4.46%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

Terms, Fair Value, Credit Risk, and Market Risk

By using derivative financial instruments to hedge exposures to changes in interest rates, the Organization exposes themselves to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Organization, which creates credit risk for the Organization. When the fair value of a derivative contract is negative, the Organization owes the counter-party and, therefore, it does not possess credit risk. The Organization minimizes the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The following table summarizes the terms, fair value, and credit rating of the Organization's interest rate swap agreement as of December 31, 2014:

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate	Fair Value	Termination Date	Counterparty Credit Rating
Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2005	$ 5,720,000	1/1/2008	4.46%	$(930,224)	1/6/2021	A3, A-, A

The variable rate on the swap is the USD-BMA Municipal Swap Index and the variable rate on the Series 2005 Bonds is Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly. The counterparty carries a guarantee by an entity ("counterparty guarantor") rated A3 by Moody's Investors Service (Moody's), A- by Standard and Poor's (S&P), and A by Fitch Ratings (Fitch).

Basis Risk

The swap exposes the Organization to basis risk should the relationship between SIFMA and USD-BMA Municipal Swap Index converges, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 4.46% and the synthetic rate of 4.60% for 2014. As of December 31, 2014, the variable rate on the Hospital's Series 2005 bonds was .21% whereas the variable rate from the counterparty was 0.04%.

The Organization has determined the swap to be an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

	2014	2013
Asset		
Deferred outflows	**$ 930,224**	$ 927,965
Liability		
Interest rate swap	**$ 930,224**	$ 927,965

Termination Risk

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

Note 16. Blended Component Unit

The consolidated financial statements include Community Memorial Hospital Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of the Foundation as of and for the years ended December 31, 2014 and 2013:

	2014	2013
Assets		
Current assets	**$ 206,464**	$ 252,694
Other	**107,637**	187,375
Total assets	**$ 314,101**	$ 440,069
Liabilities		
Current liabilities	**$ 30,249**	$ 64,628
Total liabilities	**30,249**	64,628
Net assets		
Restricted	**283,852**	375,441
Total liabilities and net position	**$ 314,101**	$ 440,069
Operating expenses	**$ 194,380**	$ 132,092
Non-operating gains	**102,791**	114,840
(Deficiency) of revenues over expenses	**$ (91,589)**	$ (17,252)

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2014	2013
Cash provided by (used in):		
Operating activities	$ (113,771)	$ (102,623)
Investing activities	5,689	(23,080)
Financing activities	102,791	114,840
Net (decrease) in cash	(5,291)	(10,863)
Cash – beginning of year	88,206	99,069
Cash – end of year	$ 82,915	$ 88,206

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INDEPENDENT AUDITOR'S 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*

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 standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mark Milford Hicksville Joint Township Hospital District and Subsidiary (the Organization), which comprise the balance sheet, as of December 31, 2014, and the related statements of operations and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Charleston, West Virginia
May 22, 2015

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Reportable Conditions in Internal Control:

No matters were reported.

Compliance Findings:

No matters were reported.

MARK MILFORD HICKSVILLE JOINT TOWNSHIP HOSPITAL DISTRICT AND SUBSIDIARY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2014

2013-1: Expense Recognition (Material Weakness)

Condition:

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

Recommendation:

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

Current Status: Department managers are reviewing expense reports for their department on a monthly basis.

2013-2: OPERS Accrual (Material Weakness)

Condition:

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

Recommendation:

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

Current Status: Accruals and accounts payable are being reviewed monthly by management for accuracy and reasonableness.

2013-3: Capital Lease Accounting (Material Weakness)

Condition:

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

Recommendation:

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

Current Status: Leases are being reviewed and tested to determine operating versus capital. Leases have been properly recorded in the current year.

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

Condition:

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

Recommendation:

We recommend that credit card purchases be reviewed and approved by the Organization Controller in accordance with the Organization's credit card policy.

Current Status: The Organization's Controller reviews and approves credit card purchases.

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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
JULY 28, 2015