

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Clinton Memorial Hospital
610 W. Main Street
Wilmington, Ohio 45177

We have reviewed the *Report of Independent Auditors* of the Clinton Memorial Hospital, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2005 through December 31, 2005. 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 Clinton Memorial Hospital is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

September 11, 2006

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CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM
Wilmington, Ohio

We have audited the accompanying combined balance sheets of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of December 31, 2005 and 2004, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Clinton County, Ohio that is attributable to the transactions of Clinton Memorial Hospital d/b/a CMH Regional Health System. They do not purport to, and do not, present fairly the financial position of Clinton County, Ohio, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2005 and 2004, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

Management's discussion and analysis on pages i through ix 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 of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2006, on our consideration of the Hospital'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.

Blue & Co., LLC

April 25, 2006

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

CMH Regional Health System (CMHRHS) operates Clinton Memorial Hospital (CMH), a short term acute care hospital with a sub-acute care skilled nursing unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The system also consists of five physician practices, an urgent care center, occupational medicine services, home health services, community dental services, community health services, and a family medicine resident training program. In 2005, CMH Regional Health System served 4,857 inpatients and over 213,000 outpatients throughout the organization.

In 2000, the organization embarked upon a \$50 million expansion program on the main campus in Wilmington. This expansion replaced all inpatient acute care beds and surgery facilities, expanded the emergency center, and renovated various other departments within the hospital. During 2003, the major portion of the expansion project, the new patient tower, was completed and occupied. The remainder was completed in early 2005.

The organization signed a contract with McKesson in late 2005 to begin an ambitious information technology project entitled "Operation Integration". This project is the advent of the electronic medical record which will contribute to better patient safety through integrated care management. The organization also embarked on construction of a regional cancer center, "The Foster J. Boyd M.D. Regional Cancer Center". This center will provide comprehensive cancer care, including a state of the art linear accelerator, to Clinton and surrounding counties and is scheduled to open in February of 2007.

Our discussion and analysis of CMH Regional Health System's financial performance provides an overview of the system's financial activities for the fiscal year ended December 31, 2005. The financial presentation includes the activities of Clinton Memorial Hospital as well as the CMH Foundation. Please read it in conjunction with the combined financial statements, which begin on page 3.

Financial Highlights for FY 2005

- CMHRHS reported income from operations of \$5,292,112.
- Net non-operating losses totaled (\$1,232,637) and the change in unrealized gains on investments totaled \$1,477.
- Income from operations combined with net non-operating losses and changes in unrealized gains on investments resulted in change in net assets of \$4,060,952.
- Total patient revenues increased \$8,759,361 or 11.1 percent; total operating revenues increased \$10,110,593 or 12.8 percent.
- Total operating expenses increased \$6,577,123 or 8.3 percent.

Using This Annual Report

CMH Regional Health System's combined financial statements consist of three statements: a Balance Sheet, a Statement of Operations and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the organization.

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

The Combined Balance Sheet and Combined Statement of Operations and Changes in Net Assets

The Combined Balance Sheet and the Combined Statement of Operations and Changes in Net Assets include all restricted and unrestricted assets and 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 assets and changes in them. Net assets – the difference between assets and liabilities is one way to measure the organization's financial health, or financial position. Over time, increases or decreases in the net assets are one indicator of whether the organization's financial health is improving or deteriorating.

The Combined Statement of Cash Flows

The final required statement is the Combined Statement of Cash Flows. This statement reports cash receipts, cash payments, and changes in cash resulting from operations, investing, and capital and related financing activities.

Net Assets

CMH Regional Health System's net assets are the difference between its assets and liabilities reported in the Combined Balance Sheets on page 3 and 4. The net assets increased in FY 2005 by \$4,060,952 or 6.4% percent over those reported in FY 2004 (see Table I).

Table 1: Assets, Liabilities, and Net Assets

	FY 2005	FY 2004
Assets		
Current assets	\$ 24,234,996	\$ 23,771,988
Capital assets, net	80,356,294	76,755,245
Other noncurrent assets	21,737,881	9,988,378
Total assets	126,329,171	110,515,611
Liabilities		
Long-term debt outstanding	45,791,872	34,875,070
Other current liabilities	13,162,108	12,326,302
Total liabilities	58,953,980	47,201,372
Net Assets		
Unrestricted	17,661,343	18,779,198
Invested in capital assets, net of related debt	33,253,158	40,385,206
Restricted	16,460,690	4,149,835
Total net assets	\$ 67,375,191	\$ 63,314,239

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results and Changes in Net Assets

In 2005, CMH Regional Health System's net assets increased by \$4,060,952 or 6.4 percent, as shown in Table 2. This increase is made up of very different components and represents an improvement over the net asset increase of \$1,303,419 or 2.1 percent reported for FY 2004.

Table 2: Operating Results and Changes in Net Assets

	FY 2005	FY 2004
Operating revenues		
Net patient service revenues	\$ 87,670,729	\$ 78,911,368
Other operating revenues	3,000,156	1,648,924
Total operating revenues	<u>90,670,885</u>	<u>80,560,292</u>
Operating expenses		
Salaries and benefits	47,658,869	43,845,813
Supplies	12,420,237	12,128,050
Professional and purchased services	10,595,578	9,445,643
Depreciation and rent	6,874,744	6,269,512
Other operating expenses	7,829,345	7,112,632
Total operating expenses	<u>85,378,773</u>	<u>78,801,650</u>
Income from operations	5,292,112	1,758,642
Nonoperating (loss) gains, net	<u>(1,232,637)</u>	<u>(379,682)</u>
Revenues and gains in excess of expenses	4,059,475	1,378,960
Change in unrealized gains and (losses) on investments	<u>1,477</u>	<u>(75,541)</u>
Change in net assets	4,060,952	1,303,419
Net assets, beginning of year	<u>63,314,239</u>	<u>62,010,820</u>
Net assets, end of year	<u><u>\$ 67,375,191</u></u>	<u><u>\$ 63,314,239</u></u>

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Gains

The first component of the overall change in the organization's net assets is its operating gain - the difference between net total revenues and the expenses incurred to perform those services. In FY 2005, CMH Regional Health System experienced an operating gain of \$5,292,112 following the previous year's operating gain of \$1,758,642. The primary contributions to this performance improvement were:

- An increase in the growth rate of total revenues of \$10.1 million or 12.6 percent in FY 2005 compared to \$5.1 million or 6.8 percent in FY 2004, and
- A growth rate of operating expenses of \$6.6 million or 8.3 percent in FY 2005 compared to \$3.3 million or 4.4 percent in FY 2004

The improvement in revenue in FY 2005 can be attributed to a strong rate of growth in the following services:

	----- Revenues -----		Rate of
	<u>FY 2005</u>	<u>FY 2004</u>	<u>Growth</u>
Surgical	\$ 27,119,226	\$ 23,145,291	17.2%
Imaging	\$ 27,812,089	\$ 23,212,676	19.8%
Pharmacy	\$ 9,774,422	\$ 8,959,518	9.1%
Cardiac Diagnostics	\$ 5,238,005	\$ 5,144,746	1.8%
Sleep Lab	\$ 1,102,276	\$ 894,715	23.2%

These five services represent 74.1 percent of the total growth experienced in patient revenues in FY 2005. The addition of an orthopedic surgeon in late 2003, and two general surgeons and a vascular surgeon in 2004 continue to power the growth in surgical services as well as imaging services. Pharmacy revenues continued to grow with the expansion of the Pyxis automated medication dispensing system, allowing improved charge capture. The Sleep Lab was relocated into the hospital and expanded from two to four beds in April of 2004 which allowed continued growth throughout 2005.

Operating expenses increased by \$6,577,123 or 8.3 percent in FY 2005 over FY 2004 with the following areas experiencing significant change:

	----- Operating Expenses -----		Percent
	<u>FY 2005</u>	<u>FY 2004</u>	<u>Change</u>
Salaries and wages	\$ 35,453,019	\$ 33,127,572	7.0%
Employee benefits	\$ 12,205,850	\$ 10,718,241	13.9%
Depreciation and rent	\$ 6,874,744	\$ 6,269,514	9.7%
Purchased services	\$ 8,536,377	\$ 6,911,669	23.5%

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

An increase in staffing due to higher volumes contributed to the increase in salaries and wages in addition to the increase in employee benefits. Employee benefits expense continues to climb due to increased employee health insurance along with other benefits expenses. Depreciation and rent increased due to the completion of the hospital campus construction project. The purchased services increase includes expenses relating to system support activities and consulting fees for a number of initiatives, including the new cancer program.

Non-operating Revenues and Expenses

In conjunction with the campus expansion of the new patient tower, the CMH Foundation initiated a capital campaign drive for financial support from local businesses and the communities. The campaign resulted in almost \$3.5 million in pledges. These funds were restricted to the use of the construction of the patient tower and renovations of the facilities on the main hospital campus. Several campaign pledges were determined not to be collectible during 2004 and pledged receivables have been adjusted to reflect the adjustments.

Capital Assets and Debt

During FY 2002, CMH Regional Health System issued \$35 million in variable interest rate Revenue Bonds through the County of Clinton. These funds were used to repay existing debt from two previous bond issues totaling \$28.2 million and finance the remaining costs of the patient tower. The remaining outlays for the renovations and emergency and laboratory departments' expansion are being paid from existing hospital reserves. A total of \$482,982 is being held in a trust account at the end of FY 2005 for the third debt payment of \$960,000 on the bonds due in June of 2006. In December of 2005, the organization issued additional bonds in the amount of \$12.2 million to pay for information system implementation and the cancer center project.

CMH Regional Health System Cash Flows

Total cash holdings increased by \$1,452,368 during FY 2005. A total of \$9.5 million was invested in plant and equipment during FY 2005.

Budget Comparison

Table 3 summarizes the comparison of actual operational results to budget for FY 2005 (CMH only).

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 3: Actual Operating Results Compared to Budget (Hospital Only)

	Actual FY 2005	Budget FY 2005
Operating revenues		
Gross patient service revenues	\$ 132,593,472	\$ 131,119,371
Less: Deductions from revenues	44,922,743	43,311,733
Net patient revenues	87,670,729	87,807,638
Other operating revenues	2,124,717	1,333,134
Total operating revenues	89,795,446	89,140,772
Operating expenses		
Salaries and benefits	47,658,869	47,336,114
Supplies	12,420,237	13,334,173
Professional and purchased services	10,595,578	10,003,473
Depreciation and rent	6,398,157	6,553,758
Occupancy	3,486,109	3,485,479
Insurance	847,510	1,039,013
Other operating expenses	3,086,759	2,661,164
Total operating expenses	84,493,219	84,413,174
Operating gain	5,302,227	4,727,598
Non-operating revenues and expenses	(1,075,842)	(596,041)
Revenues and gains in excess of expenses	\$ 4,226,385	\$ 4,131,557

Deductions From Revenues

Total net patient revenues fell short of expected budget by \$136,909. Net revenues are the result of gross patient revenues less deductions from revenues. Deductions from revenues consist of contractual adjustments (the difference between the amounts the organization charges for services and the payments actually received for those services from Medicare, Medicaid and other third party payers) bad debt expense and amounts written off as charity care for those unable to pay for services rendered

Contractual adjustments on inpatient accounts varied from budget by \$1,611,010 million or 3.7 percent. Patients covered by the Medicare program represent a majority of those admitted for overnight stays at CMH. The program pays on a per discharge basis for acute care inpatients and a per day basis for sub-acute care inpatients.

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

During FY 2005, the amounts written off as charity care exceeded budget by \$78,850, a variance of 1.7 percent. This variance was influenced by two factors: the deterioration of the economy resulting in the loss of insurance coverage by the general population and the continued trend of increasing the employees' deductible and coinsurance amounts of corporate sponsored health plans.

Benchmarking

CMH Regional Health System regularly tracks industry benchmarks to determine efficiency and financial health of the organization and to determine compliance with required bond covenants. Financial ratios are also followed to determine compliance with existing bond covenants. Table 5 represents the financial outcome indicator comparison for the industry, versus CMH for FY 2005 and FY 2004 (hospital only).

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 5: Financial Outcome Indicators

INDICATORS	<u>Industry *</u>	<u>Final 2004</u>	<u>Final 2005</u>
OPERATING EFFICIENCY			
Cost per Discharge (Case Mix & Wage Index adj)	\$6,402.00	\$5,636.59	\$5,427.68
Cost per Visit (Wage Index adj)	\$213.13	\$270.67	\$282.22
FTEs per Adjusted Daily Census	n/a	4.83	4.7
Patient Revenue Growth	n/a	8.6%	11.2%
Net Operating Revenue Growth	n/a	8.9%	12.5%
Operating Expense Growth	n/a	6.3%	8.4%
Contractual Adjustment Percentage	45.76%	31.7%	31.8%
All Patient Case Mix Index	1.1410	1.0871	1.1205
Patient Length of Stay (days)	4.00	3.28	3.217
PROFITABILITY RATIOS:			
Operating Margin	n/a	1.64%	5.90%
Total Margin	4.8%	2.46%	4.70%
Return on Equity	6.7%	3.65%	6.71%
Growth Rate in Equity	9.5%	3.70%	7.19%
LIQUIDITY RATIOS:			
Days Revenue in Accounts Receivable	54.2	43.1	37.8
Average Payment Period - Days	53.5	54.4	53.4
Days Cash on Hand (All Sources)	109.7	65.6	125.1
CAPITAL STRUCTURE RATIOS:			
Long-term Debt to Capitalization	35.7%	36.9%	41.8%
Fixed Asset Financing	68.7%	45.5%	58.1%
Cushion Ratio	12.31	6.05	7.02
ASSET EFFICIENCY RATIOS:			
Total Asset Turnover	0.92	0.80	0.77
Fixed Asset Turnover	2.22	1.10	1.17
Average Age of Plant	9.30	6.61	7.65
BOND COVENANT RATIOS			
Current Ratio**	1.50	2.04	1.77
Debt Service Coverage**	1.13	3.66	4.22
Indebtedness to Fund Balance**	95.0%	77.9%	91.0%

* S&P A Rated (Source: 2004 Center for Healthcare Industry Performance Studies)

** CMH Bond covenant ratios - Industry figures listed are CMH specific for bond issue

CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

There are three ratios associated with covenants of the 2002 and 2005 bond issues that the organization must comply. CMH Regional Health System must maintain the current ratio and debt service coverage ratio above the 1.5 and 2.0 levels respectively and maintain the indebtedness to fund balance below 95 percent for FYE's 2005 and 2006. CMH was in compliance with all three ratios of the covenants of the bond issue.

Contacting the CMH Regional Health System'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. If you have any questions about this report or need additional information, contact the Vice President of Finance/CFO at 610 West Main Street, Wilmington, Ohio 45177.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

COMBINED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS

	2005	2004
Current assets		
Cash and cash equivalents	\$ 9,128,617	\$ 7,840,735
Short-term investments	1,480,717	1,961,706
Patient accounts receivable, less allowance for doubtful accounts of \$2,429,000 in 2005 and \$2,241,000 in 2004	9,086,440	9,519,553
Notes and other receivables	1,721,383	1,842,844
Inventories	1,367,925	1,265,522
Estimated third-party payor settlements	-	199,709
Prepaid expenses and other	1,449,914	1,141,919
Total current assets	24,234,996	23,771,988
Assets whose use is limited - held by trustee	12,408,919	509,636
Property, buildings and equipment, net	80,356,294	76,755,245
Other assets		
Investments	6,280,251	5,737,049
Notes and other receivables	3,048,711	3,741,693
Total other assets	9,328,962	9,478,742
Total assets	\$ 126,329,171	\$ 110,515,611

See accompanying notes to combined financial statements.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

COMBINED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

LIABILITIES AND NET ASSETS

	2005	2004
Current liabilities		
Trade accounts payable	\$ 4,449,526	\$ 3,762,351
Accrued salaries and wages	700,686	552,468
Accrued vacation	2,444,437	2,524,528
Other accrued expenses	4,155,153	3,991,986
Estimated third-party settlements	101,042	-
Current portion of long-term debt	1,311,264	1,494,969
Total current liabilities	13,162,108	12,326,302
Long-term debt, less current portion	45,791,872	34,875,070
Total liabilities	58,953,980	47,201,372
Net assets		
Unrestricted	17,661,343	18,779,198
Invested in capital assets, net of related debt	33,253,158	40,385,206
Restricted	16,460,690	4,149,835
	67,375,191	63,314,239
Total liabilities and net assets	\$ 126,329,171	\$ 110,515,611

See accompanying notes to combined financial statements.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

**COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Revenues		
Net patient service revenue	\$ 87,670,729	\$ 78,911,368
Other operating revenue	3,000,156	1,648,924
	90,670,885	80,560,292
Operating expenses		
Salaries and wages	35,453,019	33,127,572
Employee benefits	12,205,850	10,718,241
Supplies	12,420,237	12,128,050
Purchased services	8,536,377	6,911,669
Depreciation and rent	6,874,744	6,269,512
Occupancy	3,486,109	3,053,518
Physician fees	2,059,201	2,533,974
Insurance	847,510	1,270,031
Other	3,495,726	2,789,083
	85,378,773	78,801,650
Income from operations	5,292,112	1,758,642
Nonoperating gains (losses), net	(1,232,637)	(379,682)
Revenue and gains in excess of expenses	4,059,475	1,378,960
Change in unrealized gains and losses on investments	1,477	(75,541)
Change in net assets	4,060,952	1,303,419
Net assets, beginning of year	63,314,239	62,010,820
Net assets, end of year	\$ 67,375,191	\$ 63,314,239

See accompanying notes to combined financial statements.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

**COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating activities		
Cash received for patients and third party payors	\$ 88,404,593	\$ 79,982,186
Cash paid to employees for wages and benefits	(47,427,575)	(43,490,973)
Cash paid to vendors for goods and services	(31,450,511)	(31,031,804)
Other receipts, net	3,001,633	2,082,605
Net cash from operating activities	12,528,140	7,542,014
Capital and related financing activities		
Repayment of long-term debt	(1,466,903)	(1,462,170)
Issuance of long-term debt	12,200,000	-
Interest expense and other nonoperating gains (losses)	(1,478,262)	(645,320)
Acquisition of property and equipment	(9,633,664)	(10,292,246)
Net cash from capital and related financing activities	(378,829)	(12,399,736)
Investing activities		
Change in investments, net	(11,807,210)	(454,862)
Notes and other receivables	854,443	(253,220)
Interest income	245,625	265,638
Net cash from investing activities	(10,707,142)	(442,444)
Net change in cash and cash equivalents	1,442,169	(5,300,166)
Cash and cash equivalents		
Beginning of year	8,377,693	13,677,859
End of year	\$ 9,819,862	\$ 8,377,693
Cash and cash equivalents include the following		
Cash and cash equivalents	\$ 9,128,617	\$ 7,840,735
Investments and assets whose use is limited	691,245	536,958
Total cash and cash equivalents	\$ 9,819,862	\$ 8,377,693
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 5,292,112	\$ 1,758,642
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	5,872,252	5,285,463
Change in unrealized gains and losses on investments	1,477	(75,541)
Loss on sale of assets	160,363	-
Bad debts	2,813,113	2,595,992
Changes in assets and liabilities:		
Patient accounts receivable	(2,380,000)	(1,858,602)
Inventories	(102,402)	(93,206)
Prepaid expenses and other assets	(347,995)	(83,550)
Trade accounts payable	687,175	(422,232)
Accrued salaries, wages and other	231,294	101,620
Estimated third-party settlements	300,751	333,428
Net cash from operating activities	\$ 12,528,140	\$ 7,542,014
Supplemental disclosure of cash flow information		
Assets acquired under capital lease	\$ -	\$ 1,633,112
Cash paid for interest	\$ 1,170,962	\$ 645,320

See accompanying notes to combined financial statements.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Clinton Memorial Hospital (the Hospital), d/b/a CMH Regional Health System, located in Clinton County, Ohio, is a county-owned tax-exempt Ohio not-for-profit organization that operates an acute-care hospital facility under the provisions of the Ohio Revised Code. The Hospital also has tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Hospital is considered a component unit of Clinton County, Ohio.

The Hospital's primary mission is to provide compassionate, accessible, quality healthcare to the communities it serves. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) including those issued after November 30, 1989.

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be non-operating. Non-operating gains and losses include unrestricted donations to the Hospital, interest earnings on investments, and real estate rental income net of expenses.

Accounting principles generally accepted in the United States of America require that the combined financial statements present the Hospital and its blended component units, collectively referred to as "primary government." The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationship with the Hospital. A blended component unit, although a legally separate entity, is in substance part of the primary government unit's operations and exists solely to provide services to the Hospital.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Blended Component Unit

The accompanying combined financial statements include the accounts of Clinton Memorial Hospital Foundation, Inc., a separate not-for-profit entity organized to support the operations of the Hospital. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

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.

Cash and Cash Equivalents

The Hospital considers cash in saving accounts, checking accounts, government securities and certificates of deposit that mature in three months or less to be cash and cash equivalents.

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost or fair market value at date of donation. Depreciation is calculated on the straight-line method over estimated useful lives for individual assets. Amortization of assets recorded under capital leases is included in depreciation expense.

Assets Whose Use is Limited

Assets whose use is limited consists of investments that are held by the trustee of the 2002 and 2005 revenue bonds and are to be utilized for construction costs.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Grants and Contributions

The Hospital receives grants and contributions from 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as other operating revenues.

Restricted Resources

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

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Restricted net assets include amounts that must be held in perpetuity with the income unrestricted as to use. Restricted net assets were restricted to the following:

	<u>2005</u>	<u>2004</u>
Debt service - held by trustee	\$ 12,408,919	\$ 509,636
Capital campaign	1,603,844	1,225,325
Funds to be held in perpetuity	2,447,927	2,414,874
	<u>\$ 16,460,690</u>	<u>\$ 4,149,835</u>

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts. Revenue from the Medicare and Medicaid programs accounted for approximately 51 percent of the Hospital's net patient service revenue for the years ended December 31, 2005 and 2004. Payment for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, based on the discharge diagnosis per patient case. Certain other Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. The Hospital receives reimbursement for other Medicaid and Medicare outpatient services at amounts which approximate the cost of providing the services.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2003, while Medicaid reports have been settled through 2000.

The Hospital has also entered into other contractual arrangements that provide a discount from full established rates for patients enrolled in these plans. Determination of amounts due the Hospital or payable to the third-party payor is subject to audit by the responsible payor. Management believes that adequate provisions have been made for any adjustments that may result from final settlement under these programs.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and factors unique to their operations.

Charity Care

The Hospital treats patients regardless of their ability to pay. Amounts not collected under indigent care programs are considered to be charity care. Charity care measured at established rates approximated \$4,658,000 and \$4,366,000 in 2005 and 2004, respectively.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Professional Liability Insurance

Professional liability coverage is provided up to \$1 million per occurrence with an annual aggregate of \$3 million and excess insurance of \$10 million for professional and general liability risks, through a private insurer.

Inventories

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

2. DEPOSITS AND INVESTMENTS

At December 31, 2005 and 2004, the carrying amount of the Hospital's bank deposits for all funds was \$9,819,862 and \$8,412,389 respectively, and the bank balance was \$10,905,289 and \$9,416,199, respectively. Of the bank balance, \$500,000 and \$600,000 at December 31, 2005 and 2004, respectively, is covered by Federal Depository Insurance. Of the remaining balance, \$0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name, \$8,440,623 and \$6,592,597, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and \$1,964,666 and \$2,223,602, respectively, was not collateralized. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

	December 31, 2005		December 31, 2004	
	Cost	Market	Cost	Market
Cash	\$ 9,819,862	\$ 9,819,862	\$ 8,377,693	\$ 8,377,693
U.S. obligations	19,513,742	19,478,642	7,607,965	7,545,947
Equities	-	-	100,045	125,486
Total	\$ 29,333,604	\$ 29,298,504	\$ 16,085,703	\$ 16,049,126

The Hospital's investments are uninsured with the securities held by the counter party, or by its agent, in the Hospital's name.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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

	Carrying Amount	Maturities	
		< 1 Year	1-5 Years
December 31, 2005:			
U.S. Obligations	\$ 19,478,642	\$ 13,253,604	\$ 6,225,038

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

Credit Risk – The Hospital 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 deposits or savings or deposit accounts, including passbook accounts, in any eligible institutions mentioned in Section 135.32; 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 Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

3. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment consist of the following at December 31:

	12/31/2004	Additions	Retirements/ Transfers	12/31/2005
Land and land improvements	\$ 3,001,294	\$ 2,635	\$ -	\$ 3,003,929
Buildings and improvements	77,473,620	2,705,297	-	80,178,917
Equipment	33,963,394	5,202,641	(964,085)	38,201,950
Construction in progress	1,838,857	1,723,091	-	3,561,948
Total capital assets	<u>116,277,165</u>	<u>9,633,664</u>	<u>(964,085)</u>	<u>124,946,744</u>
Less accumulated depreciation				
Land improvements	932,865	124,816	-	1,057,681
Buildings and improvements	16,838,160	2,606,659	-	19,444,819
Equipment	21,750,895	3,140,777	(803,722)	24,087,950
Total accumulated depreciation	<u>39,521,920</u>	<u>5,872,252</u>	<u>(803,722)</u>	<u>44,590,450</u>
Capital assets, net	<u>\$ 76,755,245</u>	<u>\$ 3,761,412</u>	<u>\$ (160,363)</u>	<u>\$ 80,356,294</u>

	12/31/2003	Additions	Retirements/ Transfers	12/31/2004
Land and land improvements	\$ 2,931,276	\$ 78,172	\$ (8,154)	\$ 3,001,294
Buildings and improvements	67,782,176	5,925	9,685,519	77,473,620
Equipment	30,384,162	2,131,227	1,448,005	33,963,394
Construction in progress	3,743,490	9,710,034	(11,614,667)	1,838,857
Total capital assets	<u>104,841,104</u>	<u>11,925,358</u>	<u>(489,297)</u>	<u>116,277,165</u>
Less accumulated depreciation				
Land improvements	825,263	111,271	(3,669)	932,865
Buildings and improvements	14,621,408	2,312,869	(96,117)	16,838,160
Equipment	19,279,083	2,861,323	(389,511)	21,750,895
Total accumulated depreciation	<u>34,725,754</u>	<u>5,285,463</u>	<u>(489,297)</u>	<u>39,521,920</u>
Capital assets, net	<u>\$ 70,115,350</u>	<u>\$ 6,639,895</u>	<u>\$ -</u>	<u>\$ 76,755,245</u>

In connection with the capital improvements the Hospital has capitalized interest of \$118,073 and \$147,297 for the years ended December 31, 2005 and 2004, respectively.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

4. CONCENTRATIONS OF CREDIT RISK

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

	<u>2005</u>	<u>2004</u>
Medicare	36%	40%
Medicaid	8%	6%
Other third-party payors	39%	38%
Self pay patients	17%	16%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations but has had inquiries from the programs related specifically to the billing of laboratory services. In the opinion of management, the ultimate outcome of these matters will not have a material effect on the financial position of the Hospital. However, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future.

5. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2005 and 2004:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (3.56% at December 31, 2005) with final maturity June 1, 2026.
- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2005, with varying rates (3.56% at December 31, 2005) with final maturity December 2035.
- Note payable, interest only at varying rates with a single principal payment due July 1, 2008.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

	12/31/2004	Additions	Payments	12/31/2005	Amount Due within 1 year
2002 bonds	\$ 34,115,000	\$ 40,000	\$ 960,000	\$ 33,195,000	\$ 960,000
2005 bonds	-	12,200,000	-	12,200,000	-
Capital leases	1,655,079	-	546,903	1,108,176	351,264
Note payable	599,960	-	-	599,960	-
	<u>\$ 36,370,039</u>	<u>\$ 12,240,000</u>	<u>\$ 1,506,903</u>	<u>\$ 47,103,136</u>	<u>\$ 1,311,264</u>

	12/31/2003	Additions	Payments	12/31/2004	Amount Due within 1 year
2002 bonds	\$ 35,000,000	\$ -	\$ 885,000	\$ 34,115,000	\$ 920,000
Capital leases	599,097	1,633,112	577,130	1,655,079	574,969
Note payable	600,000	-	40	599,960	-
	<u>\$ 35,599,097</u>	<u>\$ -</u>	<u>\$ 1,462,170</u>	<u>\$ 36,370,039</u>	<u>\$ 1,494,969</u>

The 2002 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds were used to refund and retire the 1992 and 1998 bonds and to finance the acquisition, construction, equipping, and installation of new hospital facilities. Under the terms of the 2002 revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited. The bonds also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

The 2005 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds were used to finance the acquisition, construction and equipping of Hospital facilities. Under the terms of the 2005 revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited. The bonds also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

The Hospital uses derivative financial instruments principally to manage the risk of change in interest rates. During 2005, the Hospital entered into a cash flow hedge interest rate swap agreement with Fifth Third Bank. As a result of the swap, the Hospital locked in to an interest rate of 4.23% on \$12,200,000 of the Series 2005 Adjustable Rate Demand Hospital Facilities Revenue Improvement Bonds. The fair value of the interest rate swap at December 31, 2005 was a liability of \$404,357. This liability has been recorded in accounts payable and accrued expenses with the related loss on this arrangement deferred as a component of unrestricted net assets. The agreement expires on December 1, 2015.

**CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM**

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

As of December 31, 2005, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value.

The installment note pertains to the purchase of certain real estate and is collateralized by a lien on the real estate.

Scheduled payments on the long-term debt and the capital lease obligation are as follows:

Year Ending December 31	Capital Lease Obligations	Principal Payments on Long-Term Debt	Interest Payments on Long-Term Debt
2006	\$ 368,929	\$ 960,000	\$ 1,642,859
2007	368,929	1,575,000	1,606,429
2008	368,929	2,239,960	1,544,148
2009	61,489	1,715,000	1,479,312
2010	-	1,785,000	1,411,678
2011-2015	-	10,160,000	5,935,575
2016-2020	-	12,590,000	3,602,676
2021-2025	-	10,605,000	1,314,486
2026-2030	-	4,365,000	33,004
	<u>1,168,276</u>	<u>\$ 45,994,960</u>	<u>\$ 18,570,167</u>
Less Amount representing interest on obligation under capital lease	<u>(60,100)</u>		
	<u>\$ 1,108,176</u>		

The net carrying value of assets recorded under capital lease was \$1,217,799 and \$1,537,763 at December 31, 2005 and 2004, respectively.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

6. FUTURE MINIMUM RENTAL EXPENSE AND INCOME

Rent expense amounted to approximately \$556,000 and \$556,000 in 2005 and 2004, respectively. The leases expire through 2047.

Future minimum rental expense payments under the noncancelable leases are as follows:

2006	\$	72,118
2007		73,921
2008		42,111
2009		12,000
2010		12,000
Thereafter		<u>442,000</u>
Total	\$	<u><u>654,150</u></u>

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

7. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System of Ohio, (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6701 or (800) 222-PERS (7377).

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 last three years follows:

2005	\$	4,730,647
2004	\$	4,448,100
2003	\$	4,551,603

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 2005 and 2004 employer contribution rates of 13.55% used to fund healthcare was 4.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2004 was 8%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287.

Hospital contributions made to fund post-employment benefits approximated \$1,360,000 and \$1,314,000 for 2005 and 2004, respectively.

The actuarial value of OPERS net assets at December 31, 2004 were \$10.8 million. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$29.5 million and \$18.7 million, respectively.

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

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Assets whose use is limited: These assets consist primarily of cash. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.



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REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

Board of Trustees
CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM
Wilmington, Ohio

Our audit for the year ended December 31, 2005, was conducted for the purpose of forming an opinion on the basic combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional System taken as a whole. The following 2005 financial information on pages 22-24 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Blue & Co., LLC

April 25, 2006

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING BALANCE SHEET DECEMBER 31, 2005

ASSETS

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
Current assets				
Cash and cash equivalents	\$ 6,966,428	\$ 2,162,189	\$ -	\$ 9,128,617
Short-term investments	1,450,978	29,739	-	1,480,717
Patient accounts receivable, less allowance for doubtful accounts of \$2,429,000 in 2005	9,086,440	-	-	9,086,440
Notes and other receivables	1,804,113	-	(82,730)	1,721,383
Inventories	1,367,925	-	-	1,367,925
Prepaid expenses and other	995,448	454,466	-	1,449,914
Total current assets	21,671,332	2,646,394	(82,730)	24,234,996
Assets whose use is limited - held by trustee	12,408,919	-	-	12,408,919
Property, buildings and equipment, net	79,133,245	1,223,049	-	80,356,294
Other assets				
Investments	6,280,251	-	-	6,280,251
Notes and other receivables	912,162	2,136,549	-	3,048,711
Total other assets	7,192,413	2,136,549	-	9,328,962
Total assets	\$ 120,405,909	\$ 6,005,992	\$ (82,730)	\$ 126,329,171

See report of independent auditors on other financial information on page 21.

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING BALANCE SHEET DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
Current liabilities				
Trade accounts payable	\$ 4,444,749	\$ 87,507	\$ (82,730)	\$ 4,449,526
Accrued salaries and wages	700,686	-	-	700,686
Accrued vacation	2,444,437	-	-	2,444,437
Other accrued expenses	3,248,612	906,541	-	4,155,153
Estimated third-party settlements	101,042	-	-	101,042
Current portion of long-term debt	1,311,264	-	-	1,311,264
Total current liabilities	12,250,790	994,048	(82,730)	13,162,108
Long-term debt, less current portion	45,191,912	599,960	-	45,791,872
Total liabilities	57,442,702	1,594,008	(82,730)	58,953,980
Net assets				
Unrestricted	17,924,219	(262,876)	-	17,661,343
Invested in capital assets, net of related debt	32,630,069	623,089	-	33,253,158
Restricted	12,408,919	4,051,771	-	16,460,690
	62,963,207	4,411,984	-	67,375,191
Total liabilities and net assets	\$ 120,405,909	\$ 6,005,992	\$ (82,730)	\$ 126,329,171

See report of independent auditors on other financial information on page 21.

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2005

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
Revenues				
Net patient service revenue	\$ 87,670,729	\$ -	\$ -	\$ 87,670,729
Other operating revenue	2,124,717	875,439	-	3,000,156
Total revenues	89,795,446	875,439	-	90,670,885
Operating expenses				
Salaries and wages	35,453,019	-	-	35,453,019
Employee benefits	12,205,850	-	-	12,205,850
Supplies	12,420,237	-	-	12,420,237
Purchased services	8,536,377	-	-	8,536,377
Depreciation and rent	6,368,157	506,587	-	6,874,744
Occupancy	3,486,109	-	-	3,486,109
Physician fees	2,059,201	-	-	2,059,201
Insurance	847,510	-	-	847,510
Other	3,116,759	507,696	(128,729)	3,495,726
Total operating expenses	84,493,219	1,014,283	(128,729)	85,378,773
Income from operations	5,302,227	(138,844)	128,729	5,292,112
Nonoperating gains (losses), net	(1,075,842)	(28,066)	(128,729)	(1,232,637)
Revenue and gains in excess of expenses	4,226,385	(166,910)	-	4,059,475
Change in unrealized gains and losses on investments	1,477	-	-	1,477
Change in net assets	4,227,862	(166,910)	-	4,060,952
Net assets, beginning of year	58,735,345	4,578,894	-	63,314,239
Net assets, end of year	\$ 62,963,207	\$ 4,411,984	\$ -	\$ 67,375,191

See report of independent auditors on other financial information on page 21.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of the Financial Statements Performed
in Accordance With *Government Auditing Standards*

Board of Trustees
Clinton Memorial Hospital
Wilmington, Ohio

We have audited the combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System, a component unit of Clinton County, Ohio (the Hospital) as of and for the year ended December 31, 2005 and have issued our report thereon dated April 25, 2006. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined 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 reportable 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 operations 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 the Hospital in a separate letter dated April 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's combined 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 combined 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*.

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

Blue & Co., LLC

April 25, 2006

CLINTON MEMORIAL HOSPITAL
PROGRAM-SPECIFIC AUDIT
HEALTH CARE AND OTHER FACILITIES PROGRAM
CFDA 93.887
DECEMBER 31, 2005

CPAs / ADVISORS



CLINTON MEMORIAL HOSPITAL
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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Clinton Memorial Hospital
Wilmington, Ohio

We have audited the accompanying schedule of expenditures of federal awards for the Health Care and Other Facilities Program of Clinton Memorial Hospital for the year ended December 31, 2005. This financial statement is the responsibility of Clinton Memorial Hospital's management. Our responsibility is to express an opinion on the financial statement of the program based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the 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 schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the Health Care and Other Facilities Program in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

July 13, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB
CIRCULAR A-133

Board of Directors
CLINTON MEMORIAL HOSPITAL
Wilmington, Ohio

Compliance

We have audited the compliance of Clinton Memorial Hospital (the Hospital) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the Health Care and Other Facilities Program for the year ended December 31, 2005. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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

In our opinion, Clinton Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to the Health Care and Other Facilities Program for the year ended December 31, 2005.

Board of Directors
Clinton Memorial Hospital
Wilmington, Ohio

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT OPTION
UNDER OMB CIRCULAR A-133 (continued)

Internal Control Over Compliance

The management of Clinton Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Clinton Memorial Hospital's internal control over compliance with requirements that could have a direct and material effect on the Health Care and Other Facilities Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Directors, management, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

July 13, 2006

Clinton Memorial Hospital
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2005

Program Title	Federal Grantor	Federal CFDA Number	Federal Expenditures
Major Program:			
Health Care and Other Facilities (Renovation or Construction Projects)	Health Resources and Services Administration, Department of Health and Human Services	93.887	\$ <u>627,266</u>

Note - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Clinton Memorial Hospital for the year ended December 31, 2005, and is presented in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CLINTON MEMORIAL HOSPITAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2005

Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:

Unqualified opinion on the Schedule of Expenditures of Federal Award (in Accordance with the Program-Specific Audit Option under OMB Circular A-133)

Federal Award:

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no

- Reportable condition(s) identified that are not considered to be material weaknesses? ___ yes X none

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

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

Identification of major program:

CFDA 93.887: Health Care and Other Facilities

The threshold used for distinguishing between Type A and B programs was \$300,000.

Auditee qualified as low-risk auditee? ___ yes X no



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CLINTON MEMORIAL HOSPITAL

CLINTON 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
SEPTEMBER 21, 2006**