CLINTON MEMORIAL HOSPITAL
D/B/A CMH REGIONAL SYSTEM

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Mary Taylor, CPA
Auditor of State

Board of Trustees
Clinton Memorial Hospital
D/B/A CMH Regional System
610 West Main Street
Wilmington, Ohio 45177

We have reviewed the *Report of Independent Auditors* of the Clinton Memorial Hospital D/B/A CMH Regional System, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2008 through December 31, 2008. 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 D/B/A CMH Regional System is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 16, 2009

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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CLINTON MEMORIAL HOSPITAL
D/B/A CMH REGIONAL SYSTEM

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CPAS / ADVISORS

blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

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 System (the Hospital) as of December 31, 2008 and 2007, 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 combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional 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 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, 2008 and 2007, 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.

Management's discussion and analysis on pages i through vii is not a required part of the basic combined 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 May 28, 2009, 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 audits.

Blue & Co., LLC

May 28, 2009

CMH REGIONAL HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CMH Regional Health System (CMHRHS) operates Clinton Memorial Hospital (CMH), a short term acute care hospital with an inpatient rehabilitation unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The System also consists of six physician practices, an urgent care center, occupational medicine services, home health services, community dental services, community health services, a freestanding cancer center and a family medicine resident training program. In 2008, CMH Regional Health System served 4,767 inpatients and over 177,000 outpatients throughout the organization.

This year provided many challenges not the least of which was the downturn in global capital markets and the local economy markets the effects of which have yet to be felt by the Hospital. However, continued aggressive reorganization and cost saving initiatives have positioned CMH to be on the road to restoration of financial health.

Our discussion and analysis of CMH Regional Health System's financial performance provides an overview of the system's financial activities for the fiscal years ended December 31, 2008, 2007, and 2006. 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 2008

- CMHRHS reported operating income of $708,939.
- Net non-operating losses totaled $1,341,904.
- The operating income combined with the net non-operating losses resulted in a decrease in net assets of $1,403,357.
- Total patient revenues increased $7,311,746 or 8.2% over the previous year while total operating revenues increased $6,710,265 or 7.3% compared to the previous year.
- Total operating expenses increased by $830,063 or 0.9% compared to the previous year.

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.

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

The Balance Sheet and the 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 which are 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 Statement of Cash Flows

The final required statement is the 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 Balance Sheets on page 3 and 4. The net assets decreased in FY 2008 by $1,403,357 or 2.3% over those reported in FY 2007 (see Table I).

Table 1: Assets, Liabilities, and Net Assets

	FY 2008	FY 2007	FY 2006
Assets			
Current assets	$ 25,946,205	$ 24,538,731	$ 25,223,421
Capital assets, net	80,765,445	87,193,007	93,462,014
Assets whose use is limited	741,466	1,573,111	4,962,366
Other noncurrent assets	6,570,657	7,363,100	7,818,444
Total assets	114,023,773	120,667,949	131,466,245
Liabilities			
Long-term liabilities	39,580,284	42,856,407	45,927,283
Other current liabilities	14,927,682	16,892,378	17,883,514
Total liabilities	54,507,966	59,748,785	63,810,797
Net assets			
Unrestricted	16,728,018	13,516,670	12,520,074
Invested in capital assets, net of related debt	38,093,770	41,272,852	45,168,893
Restricted	4,694,019	6,129,642	9,966,481
Total net assets	$ 59,515,807	$ 60,919,164	$ 67,655,448

CMH REGIONAL HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Results and Changes in Net Assets

Table 2: Operating Results and Changes in Net Assets

	FY 2008	FY 2007	FY 2006
Operating revenues			
Net patient service revenues	$ 96,678,786	$ 89,367,040	$ 89,567,065
Other operating revenues	1,591,665	2,193,146	2,559,080
Total operating revenues	98,270,451	91,560,186	92,126,145
Operating expenses			
Salaries and benefits	48,771,027	51,572,943	50,762,645
Supplies	15,149,963	12,939,794	13,013,616
Professional and purchased services	15,922,524	14,854,615	12,051,253
Depreciation and rent	9,749,241	9,840,016	7,704,751
Occupancy	3,534,912	3,342,579	3,171,440
Insurance	1,205,425	1,276,542	1,038,728
Other operating expenses	3,228,420	2,904,960	3,308,677
Total operating expenses	97,561,512	96,731,449	91,051,110
Income (loss) from operations	708,939	(5,171,263)	1,075,035
Nonoperating (loss) gains, net	(1,341,904)	(1,445,927)	(936,621)
Revenues and gains in excess of expenses	(632,965)	(6,617,190)	138,414
Change in interest rate swap	(565,099)	(264,452)	(9,252)
Change in unrealized gains and (losses) on investments	(205,293)	145,358	151,095
Change in net assets	(1,403,357)	(6,736,284)	280,257
Net assets, beginning of year	60,919,164	67,655,448	67,375,191
Net assets, end of year	$ 59,515,807	$ 60,919,164	$ 67,655,448

Operating Gains

The first component of the overall change in the organization's net assets is its operating gain (loss) - the difference between net total revenues and the expenses incurred to perform those services. In FY 2008, CMH Regional Health System experienced operating income of $708,939 following the previous year's operating loss of $5,171,263. The primary contributions to this improvement in performance were:

- Reducing salaries by $2,887,315 or 7.3%.
- Overall cost reducing initiatives which resulted in total expenses increasing only $830,063 or 0.9% compared to an increase in operating revenues of $6,710,265 or 7.3%.

The increase in revenue can be attributed to increases in the following areas:

		FY 2008		FY 2007	Change
Laboratory	$	21,169,431	$	19,220,003	10%
FJ Boyd Cancer Center	$	13,358,408	$	5,923,553	126%
Pet CT	$	1,112,798	$	581,385	91%
Interventional radiology	$	2,303,221	$	942,855	144%
Total net patient service revenue	$	96,678,786	$	89,367,040	8%

Operating expenses increased by $830,063 or 0.9 percent in FY 2008 over FY 2007 with the following areas experiencing significant change:

		FY 2008		FY 2007	Change
Salaries and wages	$	36,465,648	$	39,352,963	-7.3%
Purchased services	$	11,341,309	$	11,596,213	-2.2%
Supplies	$	15,149,963	$	12,939,794	17.1%
Total operating expenses	$	97,561,512	$	96,731,449	0.9%

Salaries decreased due to a reduction in force (RIF) which took place in mid 2007. Purchased services decreased due to CMHRHS renegotiating contracts and doing more services previously outsourced in-house. Supplies expense increased due to the growth of the medical oncology service of the cancer center.

Capital Assets and Debt

During December 2005, CMH Regional Health System issued $12.2 million in variable interest rate revenue bonds through the Clinton County. These funds were used to build the Foster J. Boyd Cancer Center and implement Operation Integration. A total of $741,466 is being held in trust accounts, part of which is for a June debt payment and part of which is the remainder of the proceeds from the 2005 bond issue.

CMH Regional Health System Cash Flows

Total cash holdings increased by $179,990 during FY 2008.

Budget Comparison

CMH Regional Health System experienced actual financial results that had some variances from the expected budget. Annual operational budgets are prepared three months in advance of the beginning of each fiscal year. Changes in legislation and economic conditions can influence and alter the actual results achieved by the System's operations.

Table 3 summarizes the results (CMH only).

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

	Actual FY 2008	Budget FY 2008
Operating revenues		
Gross patient service revenues	$ 166,141,029	$ 166,104,973
Less: Deductions from revenues	69,462,243	68,077,717
Net patient revenues	96,678,786	98,027,256
Other operating revenues	1,173,850	1,092,020
Total operating revenues	97,852,636	99,119,276
Operating expenses		
Salaries and benefits	48,659,729	51,574,842
Supplies	15,133,956	14,414,778
Professional and purchased services	15,922,524	15,546,686
Depreciation and rent	9,749,129	10,393,752
Occupancy	3,534,912	3,965,041
Insurance	1,205,425	1,306,956
Other operating expenses	2,863,626	1,856,306
Total operating expenses	97,069,301	99,058,361
Operating income	783,335	60,915
Non-operating revenues and expenses	(956,391)	(2,186,627)
Revenues and gains in excess of expenses	$ (173,056)	$ (2,125,712)

Deductions From Revenues

Total net patient services revenues were under budget by $1,348,470. 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. Table 4 displays the actual versus budget comparisons for deductions from revenue for 2008.

Table 4: Deductions from Revenue – Actual versus budget

	Actual FY 2008	Budget FY 2008	Percent Variance
Contractual adjustments	$ 57,579,998	$ 57,206,192	0.7%
Charity Care	$ 5,558,997	$ 6,718,901	-17.3%
Bad debts	$ 6,323,248	$ 4,152,624	52.3%
Total	$ 69,462,243	$ 68,077,717	2.0%

Contractual adjustments varied from budget by $373,806 or 0.7%. This variance is due to a variety of factors including changing payor mix.

During 2008, the amounts written off as charity care were under budget by $1,159,904, a variance of 17.3% and bad debts were over budget by $2,170,624, a variance of 52.3%. Bad debts and charity care continue to be significant deductions from revenue in 2008 and 2007, which is a phenomenon that is occurring throughout the industry. Just in the last eight months of 2008, Ohio hospitals saw a 41 percent increase in charity care and a 50 percent increase in bad debt. The decline in employed sponsored health insurance throughout the nation pushes more families into an uninsured/underinsured situation and thus increases the pool of people who are eligible for charity care or unable to pay, resulting in bad debt. CMH allows charity care deductions for families and individuals at less than or equal to 200% of poverty.

Benchmarking

CMH Regional Health System regularly tracks industry benchmarks to determine efficiency and financial health of the organization and to determine compliance with required covenants. Table 5 presents certain benchmarks relative to CMH.

Key Result Measure (KRM)	Actual 2008	Expected Results
FTE's per adjusted daily census (CMI adjusted)	4.26	4.33
Patient Revenue Growth	10.60%	10.48%
Patient length of stay (CMI adjusted)	3.54	3.27
Operating margin	0.7%	-2.22%
Days revenue in accounts receivable	43	40
Days cash on hand	46	62
Overtime as a percentage of gross wages	1.65%	< 2%
Wages and benefits as a percentage of net revenue	49.60%	< 50%

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, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	$ 5,660,392	$ 5,950,084
Short-term investments	3,094,975	2,210,121
Patient accounts receivable, less allowance for doubtful accounts of $3,467,000 in 2008 and $2,309,000 in 2007	11,377,384	11,536,534
Notes and other receivables	723,711	706,442
Inventories	2,202,556	1,556,829
Prepaid expenses and other	2,887,187	2,578,721
Total current assets	25,946,205	24,538,731
Assets whose use is limited - held by trustee	741,466	1,573,111
Property, buildings and equipment, net	80,765,445	87,193,007
Other assets		
Investments	6,025,693	6,239,732
Notes and other receivables	544,964	1,123,368
Total other assets	6,570,657	7,363,100
Total assets	$ 114,023,773	$ 120,667,949

See accompanying notes to combined financial statements.

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

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Trade accounts payable	$ 3,621,225	$ 6,109,584
Accrued salaries and wages	830,314	856,809
Accrued vacation	2,318,845	2,551,325
Other accrued expenses	4,051,889	3,842,860
Estimated third-party settlements	1,014,018	468,052
Current portion of long-term debt	3,091,391	3,063,748
Total current liabilities	14,927,682	16,892,378
Long-term debt, less current portion	39,580,284	42,856,407
Total liabilities	54,507,966	59,748,785
Net assets		
Unrestricted	16,728,018	13,516,670
Invested in capital assets, net of related debt	38,093,770	41,272,852
Restricted	4,694,019	6,129,642
	59,515,807	60,919,164
Total liabilities and net assets	$ 114,023,773	$ 120,667,949

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, 2008 AND 2007

	2008	2007
Revenues		
Net patient service revenue	$ 96,678,786	$ 89,367,040
Other operating revenue	1,591,665	2,193,146
Total revenues	98,270,451	91,560,186
Operating expenses		
Salaries and wages	36,465,648	39,352,963
Employee benefits	12,305,379	12,219,980
Supplies	15,149,963	12,939,794
Purchased services	11,341,309	11,596,213
Depreciation and rent	9,749,241	9,840,016
Occupancy	3,534,912	3,342,579
Repairs and maintenance	666,208	606,811
Physician fees	4,581,215	3,258,402
Insurance	1,205,425	1,276,542
Other	2,562,212	2,298,149
Total operating expenses	97,561,512	96,731,449
Income (loss) from operations	708,939	(5,171,263)
Nonoperating loss, net	(1,341,904)	(1,445,927)
Revenue and gains in excess of expenses	(632,965)	(6,617,190)
Change in interest rate swap	(565,099)	(264,452)
Change in unrealized gains and losses on investments	(205,293)	145,358
Change in net assets	(1,403,357)	(6,736,284)
Net assets, beginning of year	60,919,164	67,655,448
Net assets, end of year	$ 59,515,807	$ 60,919,164

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, 2008 AND 2007

	2008	2007
Operating activities		
Cash received from patients and third party payors	$ 97,383,902	$ 86,808,713
Cash paid to employees for wages and benefits	(48,820,973)	(51,828,201)
Cash paid to vendors for goods and services	(44,579,552)	(35,497,634)
Other receipts, net	1,591,665	2,193,146
Net cash from operating activities	5,575,042	1,676,024
Capital and related financing activities		
Repayment of long-term debt	(3,248,480)	(2,372,966)
Proceeds from sale of capital assets	29,900	-
Interest expense and other nonoperating gains (losses)	(1,854,948)	(2,164,024)
Acquisition of property and equipment	(2,026,215)	(2,534,699)
Net cash from capital and related financing activities	(7,099,743)	(7,071,689)
Investing activities		
Change in investments, net	630,512	2,284,840
Notes and other receivables	561,135	1,217,910
Interest income	513,044	718,097
Net cash from investing activities	1,704,691	4,220,847
Net change in cash and cash equivalents	179,990	(1,174,818)
Cash and cash equivalents		
Beginning of year	7,203,292	8,378,110
End of year	$ 7,383,282	$ 7,203,292
Cash and cash equivalents include the following		
Cash and cash equivalents	$ 5,660,392	$ 5,950,084
Investments and assets whose use is limited	1,722,890	1,253,208
Total cash and cash equivalents	$ 7,383,282	$ 7,203,292
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	$ 708,939	$ (5,171,263)
Adjustment to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	8,335,642	8,645,523
Change in unrealized gains and losses on investments	(770,392)	145,358
Loss on sale of assets	88,235	158,183
Bad debts	6,323,248	4,060,133
Changes in assets and liabilities:		
Patient accounts receivable	(6,164,098)	(3,115,647)
Inventories	(645,727)	(275,698)
Prepaid expenses and other assets	(308,466)	(906,335)
Trade accounts payable	(2,488,359)	(2,292,625)
Accrued salaries, wages and other	(49,946)	(128,925)
Estimated third-party settlements	545,966	557,320
Net cash from operating activities	$ 5,575,042	$ 1,676,024
Supplemental disclosure of cash flow information		
Assets acquired under capital leases	$ -	$ 2,500,000
Cash paid for interest	$ 1,801,132	$ 2,055,160

See accompanying notes to combined financial statements.

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 is considered a part 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.

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 revenue bonds and are to be utilized for construction costs and related capital expenditures.

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 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 into four 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:

	2008	2007
Restricted - held by trustee	$ 741,466	$ 1,573,111
Restricted - expendable for specific activities	1,475,261	1,805,063
Restricted - expendable for capital acquisitions	64,616	103,265
Restricted - nonexpendable permanent endowments	2,412,676	2,648,203
	$ 4,694,019	$ 6,129,642

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.

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 55% and 53% of the Hospital's net patient service revenue for the years ended December 31, 2008 and 2007, respectively. 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 2006, while Medicaid reports have been settled through 2002.

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 $5,559,000 and $5,691,000 in 2008 and 2007, respectively.

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.

Investments

The Hospital holds both Level 1 and Level 2 investments. For Level 1 investments, the fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: Fair Value Measurements. For Level 2 investments, the fair value is based on prices from broker-dealers who derive fair values for those assets from observable inputs. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses and reported as a change in net assets.

Federal Income Tax

As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation. These changes had no effect on the change in net assets.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments which are measured using quoted prices or prices for similar securities in active markets.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the combined results of operations and combined financial position.

Fair values of financial instruments at December 31, 2008 follow:

Description:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$ 593,338	7,545,906	-

3. DEPOSITS AND INVESTMENTS

At December 31, 2008 and 2007, the carrying amount of the Hospital's bank deposits for all funds was $7,404,286 and $5,984,064 respectively, and the bank balance was $8,777,688 and $7,277,082, respectively. Of the bank balance, $1,025,777 and $429,361 at December 31, 2008 and 2007, 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, $7,751,911 and $6,621,132, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and $0 and $226,589, 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.

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

	December 31, 2008		December 31, 2007	
	Cost	Market	Cost	Market
Cash	$ 7,383,282	$ 7,383,282	$ 7,203,292	$ 7,203,292
U.S. Obligations	7,135,224	7,373,404	7,819,009	7,942,798
Other Fixed Income	171,541	172,502	-	-
Equities	715,471	593,338	628,446	826,958
Total	$ 15,405,518	$ 15,522,526	$ 15,650,747	$ 15,973,048

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

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:

		Maturities	
	Carrying Amount	< 1 Year	1-5 Years
December 31, 2008			
U.S. Obligations	$ 7,373,404	$ 1,145,817	$ 6,227,587
Other Fixed Income	172,502	126,640	45,862

Interest Rate Risk – The Hospital has 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.

4. PROPERTY, BUILDINGS AND EQUIPMENT

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

	12/31/2007	Additions/ Transfers	Retirements	12/31/2008
Land and land improvements	$ 3,528,984	$ 13,019	$ -	$ 3,542,003
Buildings and improvements	85,780,805	660,360	-	86,441,165
Equipment	51,942,688	1,178,007	(267,084)	52,853,611
Construction in progress	539,191	174,829	-	714,020
Total capital assets	141,791,668	2,026,215	(267,084)	143,550,799
Less accumulated depreciation				
Land improvements	1,277,597	160,603	-	1,438,200
Buildings and improvements	24,837,677	3,066,453	-	27,904,130
Equipment	28,483,387	5,108,586	(148,949)	33,443,024
Total accumulated depreciation	54,598,661	8,335,642	(148,949)	62,785,354
Capital assets, net	$ 87,193,007	$ (6,309,427)	$ (118,135)	$ 80,765,445

	12/31/2006	Additions/ Transfers	Retirements	12/31/2007
Land and land improvements	$ 3,142,757	$ 386,227	$ -	$ 3,528,984
Buildings and improvements	81,716,850	4,131,104	(67,149)	85,780,805
Equipment	49,558,830	4,291,014	(1,907,156)	51,942,688
Construction in progress	6,837,211	(6,273,646)	(24,374)	539,191
Total capital assets	141,255,648	2,534,699	(1,998,679)	141,791,668
Less accumulated depreciation				
Land improvements	1,113,261	164,336	-	1,277,597
Buildings and improvements	21,865,308	3,015,712	(43,343)	24,837,677
Equipment	24,815,065	5,465,475	(1,797,153)	28,483,387
Total accumulated depreciation	47,793,634	8,645,523	(1,840,496)	54,598,661
Capital assets, net	$ 93,462,014	$ (6,110,824)	$ (158,183)	$ 87,193,007

5. 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:

	2008	2007
Medicare	35%	35%
Medicaid	13%	11%
Other third-party payors	33%	35%
Self pay patients	19%	19%
	100%	100%

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. 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.

6. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2008 and 2007:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (2.75% at December 31, 2008) with final maturity June 1, 2026.

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2005, with varying rates (2.75% at December 31, 2008) with final maturity December 2035.

- County of Clinton, Ohio Series 2006A Note, interest rate of 5.015% due October 4, 2011.

- Note payable, interest only at varying rates with a single principal payment repaid on July 1, 2008.

	12/31/2007	Additions	Payments	12/31/2008	Amount Due within 1 year
2002 bonds	$ 31,235,000	$ -	$ 1,040,000	$ 30,195,000	$ 2,085,000
2005 bonds	11,625,000	-	600,000	11,025,000	630,000
2006 Notes	2,074,241	-	622,566	1,451,675	376,391
Capital leases	418,772	-	418,772	-	-
Note payable	567,142	-	567,142	-	-
	$ 45,920,155	$ -	$ 3,248,480	$ 42,671,675	$ 3,091,391

	12/31/2006	Additions	Payments	12/31/2007	Amount Due within 1 year
2002 bonds	$ 32,235,000	$ -	$ 1,000,000	$ 31,235,000	$ 1,040,000
2005 bonds	12,200,000	-	575,000	11,625,000	600,000
2006 Notes	2,500,000	-	425,759	2,074,241	500,196
Capital leases	758,161	-	339,389	418,772	356,404
Note payable	599,960	-	32,818	567,142	567,148
	$ 48,293,121	$ -	$ 2,372,966	$ 45,920,155	$ 3,063,748

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 Hospital was not in compliance with the financial measures as of December 31, 2008. The Hospital obtained a waiver from the respective lending institution.

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 was not in compliance with the financial measures as of December 31, 2008. The Hospital obtained a waiver from the respective lending institution.

The 2005 Bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be "put" back to the Bond Trustee, who would draw down on the letter of credit to pay down the 2005 Bonds. The Reimbursement Agreement between the letter-of-credit bank and the Hospital provides for the Hospital to reimburse the letter-of-credit bank for any remarketing draws. The letter of credit expires on June 14, 2010.

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, 2008 was a liability of $1,243,160. This liability has been recorded in other accrued expenses with the related loss on this arrangement deferred as a component of unrestricted net assets. The agreement expires on December 1, 2015.

As of December 31, 2008, 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	Principal Payments on Long-Term Debt	Interest Payments on Long-Term Debt	Interest Rate Swap, Net	Total Payments
2009	$ 3,091,391	$ 1,203,206	$ 163,170	$ 4,457,767
2010	3,309,247	1,103,056	153,846	4,566,149
2011	2,411,037	999,679	144,078	3,554,794
2012	1,945,000	931,150	133,866	3,010,016
2013	2,030,000	877,663	123,136	3,030,799
2014-2018	11,555,000	3,500,888	203,667	15,259,555
2019-2023	11,935,000	1,798,638	-	13,733,638
2024-2027	6,395,000	368,638	-	6,763,638
	$ 42,671,675	$ 10,782,918	$ 921,763	$ 54,376,356

The carrying value of equipment under capital lease obligations is as follows:

	2007
Cost of equipment under capital lease	$ 1,535,350
Less accumulated amortization	1,116,588
	$ 418,762

At December 31, 2008 The Hospital was in compliance with the provisions of the debt covenants which require debt service coverage to be not less than 1.2 to 1.

7. ENDOWMENT

The Hospital's endowment consists of individual donor-restricted funds established by donors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

The Hospital has adopted investment and spending policies for endowment assets that attempt to balance the mission of building capital for future use with the corresponding obligation to support current and future needs of the Hospital. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk.

To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

A portion of the accumulated earnings on the endowment funds, as determined by the Board, will be distributed for the intended purposes of the endowment annually. Growth of the endowment results from retaining a specified portion of annual earnings plus contributions made to the endowment.

Endowment Net Asset Composition by Type of Fund as of December 31, 2008:

	Permanently Restricted
Donor restricted endowment funds	$ 2,412,676

Changes in Endowment Net Assets for the Year Ended December 31, 2008:

	Permanently Restricted
Endowment net assets, beginning of year	$ 2,648,203
Contributions	65,072
Investment income (loss)	(300,599)
Appropriation of endowment assets for expenditure	-
Endowment net assets, end of year	$ 2,412,676

Endowment Net Asset Composition by Type of Fund as of December 31, 2007:

	Permanently Restricted
Donor restricted endowment funds	$ 2,648,203

Changes in Endowment Net Assets for the Year Ended December 31, 2007:

	Permanently Restricted
Endowment net assets, beginning of year	$ 2,580,104
Contributions	46,317
Investment income	21,782
Appropriation of endowment assets for expenditure	-
Endowment net assets, end of year	$ 2,648,203

8. PENSION PLAN

The Hospital participates in a state pension plan, the Ohio Public Employees Retirement System (OPERS), which covers substantially all employees. OPERS administers three separate pension plans; The Traditional Pension Plan (TP)- 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, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and Combined Plan; however healthcare benefits are not statutorily guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215, Telephone 1-800-222-7377.

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 14.0% and 10.0% respectively. The Hospital's contributions, representing 100% employer contributions, for the last three years are as follows:

2008	$ 5,061,941
2007	$ 5,237,195
2006	$ 5,095,750

In additions to the pension benefits described above, OPERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions.

OPERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The portion of the 2008 employer contribution rate of 14.00% used to fund healthcare was 7%. The total Hospital contribution used to fund health care was approximately $2,619,000 and $2,080,000 for the years ended December 31, 2008 and 2007, respectively.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2008 was 363,503. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2007 was approximately $12.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately $29.8 billion and $17.0 billion, respectively, as of December 31, 2007.

The actuarial assumptions used to calculate these amounts are as follows:

- **Funding Method-** An entry age normally actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- **Assets Valuations Method-** All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or deprecation on investment assets.

- **Investment Return-** The investment assumption rate for 2008 was 6.5%.

- **Active Employee Total Payroll-** An annual increase of 4.0% 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 4.0% base increase, were assumed to range from .5% to 6.3%.

- **Health Care-** Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4.0% for the next 7 years. In subsequent years, (8 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

The Health Care Preservation Plan (HCPP) adopted by OPERS Retirements Board on September 9, 2004, was effective January 1, 2007.

Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

9. 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.

The carrying amounts and fair values of the Hospital's financial instruments at December 31, 2008 and 2007 are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 5,660,392	$ 5,660,392	$ 5,950,084	$ 5,950,084
Investments	9,120,668	9,120,668	8,449,853	8,449,853
Assets limited as to use	741,466	741,466	1,573,111	1,573,111
Estimated third-party settlements	1,014,018	1,014,018	468,052	468,052
Accounts payable and accrued expenses	8,503,428	8,503,428	10,809,253	10,809,253
Long-term debt	42,671,675	42,671,675	45,920,155	45,920,155

10. RISKS AND UNCERTAINTIES

During 2008 the Hospital suffered a decrease in net assets of approximately $1,400,000. A major employer which employed approximately 8,000 people in and around Wilmington announced plans to move its operations out of the Wilmington area by the end of 2009. Approximately 5% of the Hospital's revenue came from employees and enrollees of the health plan of this organization. The impact of this closing is uncertain at this time.

In addition, the letter of credit from the bank backing the Hospital's bonds was due to expire on June 15, 2009, but on April 15, 2009, was extended until June 14, 2010.

Management is continuously developing and implementing plans to increase revenues and cut expenses. Contracts are being evaluated for competitive pricing and lines of business are being evaluated for profitability with the goal to stay ahead of the local economic downturn.

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 d/b/a CMH Regional System
Wilmington, Ohio

We have audited the combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System, a business-type activity of Clinton County, Ohio (the Hospital) as of and for the year ended December 31, 2008, and have issued our report thereon dated May 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency 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 material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated May 28, 2009.

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

Blue & Co., LLC

May 28, 2009

CLINTON MEMORIAL HOSPITAL DBA CMH REGIONAL SYSTEM

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
JUNE 30, 2009