CLINTON MEMORIAL HOSPITAL D/B/A CMH REGIONAL HEALTH SYSTEM

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Mary Taylor, CPA
Auditor of State

Board of Trustees
Clinton Memorial Hospital
d/b/a CMH Regional Health 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 Health System, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2009 through December 31, 2009. 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 Health System is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 14, 2010

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CLINTON MEMORIAL HOSPITAL
D/B/A CMH REGIONAL SYSTEM

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CPAs ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Clinton Memorial Hospital d/b/a CMH Regional Health 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, 2009 and 2008, 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 the Hospital 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 the Hospital. 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 10, 2010, 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 effectiveness of 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.

Management's discussion and analysis on pages i through viii 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.

Blue & Co., LLC

June 10, 2010

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

CMH Regional Health System (the System) operates Clinton Memorial Hospital (the Hospital), 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.

The CMH Board took formal action on March 31, 2010 and recommended to the Clinton County Commissioners to proceed with an asset purchase of CMH by RegionalCare Hospital Partners. The Commissioners will hold a public hearing Wednesday May 19th at 9:00 a.m. The Hospital anticipates that the County Commissioners will endorse the Board's recommendation of an asset purchase of CMH by RegionalCare Hospital Partners at that time, after which the Hospital will enter into a formal letter of intent with RegionalCare and begin the due diligence process which is expected to last 60 - 90 days.

Our discussion and analysis of the System's financial performance provides an overview of the system's financial activities for the fiscal years ended December 31, 2009, 2008, and 2007. The financial presentation includes the activities of the Hospital, as well as the Clinton Memorial Hospital Foundation. Please read it in conjunction with the combined financial statements, which begin on page 3.

Financial Highlights for FY 2009

- The System reported a loss from operations approximating $1.3 million.
- Non-operating losses totaled $1.3 million.
- The System reported a total decrease in its net assets of $2.3 million.
- Total patient revenues increased $2.9 million or 3.0% over the previous year while total operating revenues increased $2.7 million or 2.7% compared to the previous year.
- Total operating expenses increased by $4.4 million or 4.4% compared to the previous year.

Using This Annual Report

The 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 System.

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 System's net assets and changes in them. Net assets which are the difference between assets and liabilities, is one way to measure the System'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. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Net Assets

The 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 2009 by approximately $2.3 million or 3.9% over those reported in FY 2008 (see Table I).

Table 1: Assets, Liabilities, and Net Assets

	FY 2009	FY 2008*	FY 2007*
Assets			
Current assets	$ 26,588,883	$ 25,946,205	$ 24,538,731
Capital assets, net	74,082,918	80,765,445	87,193,007
Assets whose use is limited	4,516,664	4,694,019	6,129,642
Other noncurrent assets	2,971,468	2,618,104	2,806,569
Total assets	108,159,933	114,023,773	120,667,949
Liabilities			
Long-term liabilities	36,021,037	39,580,284	42,856,407
Other current liabilities	14,952,581	14,927,682	16,892,378
Total liabilities	50,973,618	54,507,966	59,748,785
Net assets			
Unrestricted	18,038,395	16,728,018	13,516,670
Invested in capital assets, net of related debt	34,631,256	38,093,770	41,272,852
Restricted	4,516,664	4,694,019	6,129,642
Total net assets	$ 57,186,315	$ 59,515,807	$ 60,919,164

*- Certain amounts in FY 2008 and FY 2007 columns have been reclassified to conform to the FY 2009 presentation. These reclassifications had no effect on net assets.

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 2009	FY 2008 *	FY 2007 *
Operating revenues			
Net patient service revenues	$ 99,578,726	$ 96,678,786	$ 89,367,040
Other operating revenues	963,144	1,173,850	1,247,552
Total operating revenues	100,541,870	97,852,636	90,614,592
Operating expenses			
Salaries and benefits	51,395,918	48,771,027	51,572,943
Supplies	16,071,873	15,149,963	12,939,794
Professional and purchased services	16,936,378	15,922,524	14,854,615
Depreciation and rent	9,346,430	9,749,241	9,840,016
Occupancy	3,495,499	3,534,912	3,342,579
Insurance	1,344,140	1,205,425	1,276,542
Other operating expenses	3,242,582	3,228,420	2,904,920
Total operating expenses	101,832,820	97,561,512	96,731,409
Income (loss) from operations	(1,290,950)	291,124	(6,116,817)
Nonoperating (loss) gains, net	(1,311,535)	(924,089)	(500,373)
Revenues and gains in excess of expenses	(2,602,485)	(632,965)	(6,617,190)
Change in interest rate swap	285,638	(565,099)	(264,452)
Change in unrealized gains and (losses) on investments	(12,645)	(205,293)	145,358
Change in net assets	(2,329,492)	(1,403,357)	(6,736,284)
Net assets, beginning of year	59,515,807	60,919,164	67,655,448
Net assets, end of year	$ 57,186,315	$ 59,515,807	$ 60,919,164

*- Certain amounts in FY 2008 and FY 2007 columns have been reclassified to conform to the FY 2009 presentation. These reclassifications had no effect on the total change in net assets.

Income (loss) from operations

The first component of the overall change in the System's net assets is its income (loss) from operations - the difference between total operating revenues and total operating expenses incurred to perform those services. In FY 2009, the System experienced a loss from operations of $ 1.3 million following the previous year's income from operations of $ .3 million. The primary contributions to the FY 2009 loss from operations were:

- Inpatient gross revenues grew by 7.1%, or $3.2 million. Primary reasons for this increase include a 5% rate increase and an increase in adult admissions of 8.7% and inpatient surgeries 12.5%. Outpatient gross revenues grew by 1.6%, or $1.9 million. The 5% rate increase, coupled with increases in Emergency Department visits of 16.0% and Home Health visits of 17.7%, helped offset the decline in outpatient surgeries of 6.3%.

- Charity care and bad debts combined as a percentage of gross revenues increased from 7.15% to 7.22%. Charity care write-offs increased by $1.9 million while bad debt write-offs decreased by $1.4 million.

- Other operating revenue decreased by $211,000, due primarily to writing off two information technology software applications.

- Total operating expenses increased 4.4%, or $4.3 million. The most significant increases included wages $1,726,000, employee benefits $898,000, supplies $922,000, purchased services $375,000, and physician fees $639,000.

- Wages increased by 4.7% due to a 2% wage increase and a 2.9% increase in paid hours. Employee benefits increased 7.3% due primarily to an increase in self insured hospitalization expenses. Supplies expense increased 6.1% due to inflationary factors and an 8.7% increase in adult admissions. Purchased services increased 3.3% including increases in information technology of $575,000, home care of $167,000, and laboratory of $124,000 offset by decreases in wound care of $222,000, marketing of $119,000, and human resources of $99,000. Physician fees increased 13.9%, including increases in medical oncology of $296,000 and interventional radiology of $203,000.

Non-operating Losses

During FY 2009, the System experienced a non-operating losses of $ 1.3 million compared to .9 million non-operating losses experienced in FY 2008. The increase in the non-operating losses resulted primarily from an increase in interest expense of approximately $254,000 in FY 2009.

Cash Flows

Despite the FY 2009 loss from operations, the System generated net cash provided by operating activities totaling $ 8.7 million due primarily on the addition of non-cash expenses of depreciation and amortization and bad debt expense. Total cash equivalents increased by $ 2.3 million during FY 2009.

Capital Assets and Debt

At the end of 2009, the System had $74.1 million invested in capital assets, net of accumulated depreciation, as detailed in note 3 to the financial statements. In 2009, the System purchased new equipment costing $2.5 million.

At the end of 2009, the System had $39.5 million in bond, note and capital lease obligations outstanding as detailed in note 4 to the financial statements. The System issued no new debt during FY 2009 and FY 2008. The System repaid approximately $3.2 million in debt during both FY 2009 and FY 2008.

Budget Comparison

The 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: Actual Operating Results Compared to Budget (Hospital Only)

	Actual FY 2009	Budget FY 2009
Operating revenues		
Gross patient service revenues	$ 175,137,029	$ 178,987,323
Less: Deductions from revenues	75,558,303	76,902,511
Net patient revenues	99,578,726	102,084,812
Other operating revenues	963,144	989,531
Total operating revenues	100,541,870	103,074,343
Operating expenses		
Salaries and benefits	51,289,772	50,202,246
Supplies	16,058,154	15,990,909
Professional and purchased services	16,936,378	18,100,443
Depreciation and rent	9,346,411	9,288,771
Occupancy	3,495,499	4,317,004
Insurance	1,344,140	1,469,269
Other operating expenses	2,974,058	1,895,664
Total operating expenses	101,444,412	101,264,306
Income (loss) from operations	(902,542)	1,810,037
Non-operating loss	(1,425,112)	(4,151,417)
Expenses in excess of revenues	$ (2,327,654)	$ (2,341,380)

Deductions from Revenues

Total net patient services revenues were under budget by $ 2.5 million or 2.5%. 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 2009.

Table 4: Deductions from Revenue – Actual versus budget

	Actual FY 2009	Budget FY 2009	Percent Variance
Contractual adjustments	$ 63,195,997	$ 63,979,644	-1.2%
Charity Care	$ 7,468,578	$ 5,754,506	29.8%
Bad debts	$ 4,893,728	$ 7,168,361	-31.7%
Total	$ 75,558,303	$ 76,902,511	-1.7%

Contractual adjustments varied from budget by $ 4.7 million or 7.3%. This variance is due to a variety of factors including a change in payor mix.

During 2009, the amounts written off as charity care were over budget by $ 1.7 million, a variance of 29.8% and bad debts were under budget by $ 2.3 million, a variance of 31.7%. Bad debts and charity care continue to be significant deductions from revenue in 2009 and 2008, which is a phenomenon that is occurring throughout the industry. 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. The Hospital allows charity care deductions for families and individuals at less than or equal to 200% of poverty.

Benchmarking

The Hospital 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 the Hospital.

Table 5: Benchmarks

Key Result Measure (KRM)	Actual 2009	Expected Results
FTE's per adjusted daily census (CMI adjusted)	4.49	4.42
Patient Revenue Growth	5.29%	7.04%
Patient length of stay (CMI adjusted)	3.58	3.73
Operating margin	-1.3%	-2.3%
Days revenue in accounts receivable	35	40
Days cash on hand	65	49
Overtime as a percentage of gross wages	1.39%	<2%
Wages and benefits as a percentage of net revenue	51.12%	<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, 2009 AND 2008

ASSETS

	2009	2008
Current assets		
Cash and cash equivalents	$ 8,142,647	$ 5,660,392
Short-term investments	3,014,804	3,094,975
Patient accounts receivable, less allowance for doubtful accounts of $3,758,000 in 2009 and $3,467,000 in 2008	9,683,495	11,377,384
Notes and other receivables	650,188	723,711
Inventories	2,230,806	2,202,556
Prepaid expenses and other	2,866,943	2,887,187
Total current assets	26,588,883	25,946,205
Assets whose use is limited	4,516,664	4,694,019
Property, buildings and equipment, net	74,082,918	80,765,445
Other assets		
Investments	2,455,399	2,073,140
Notes and other receivables	516,069	544,964
Total other assets	2,971,468	2,618,104
Total assets	$ 108,159,933	$ 114,023,773

See accompanying notes to combined financial statements.

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

COMBINED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	2009	2008
Current liabilities		
Trade accounts payable	$ 3,580,722	$ 3,621,225
Accrued salaries and wages	1,054,358	830,314
Accrued vacation	2,204,393	2,318,845
Other liabilities	3,367,377	4,051,889
Estimated third-party settlements	1,315,106	1,014,018
Current portion of long-term debt	3,430,625	3,091,391
Total current liabilities	14,952,581	14,927,682
Long-term debt, less current portion	36,021,037	39,580,284
Total liabilities	50,973,618	54,507,966
Net assets		
Unrestricted	18,038,395	16,728,018
Invested in capital assets, net of related debt	34,631,256	38,093,770
Restricted	4,516,664	4,694,019
	57,186,315	59,515,807
Total liabilities and net assets	$ 108,159,933	$ 114,023,773

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, 2009 AND 2008

	2009	2008
Revenues		
Net patient service revenue	$ 99,578,726	$ 96,678,786
Other operating revenue	963,144	1,173,850
Total revenues	100,541,870	97,852,636
Operating expenses		
Salaries and wages	38,192,084	36,465,648
Employee benefits	13,203,834	12,305,379
Supplies	16,071,873	15,149,963
Purchased services	11,716,046	11,341,309
Depreciation and rent	9,346,430	9,749,241
Occupancy	3,495,499	3,534,912
Repairs and maintenance	528,817	666,208
Physician fees	5,220,332	4,581,215
Insurance	1,344,140	1,205,425
Other	2,713,765	2,562,212
Total operating expenses	101,832,820	97,561,512
Income (loss) from operations	(1,290,950)	291,124
Non-operating loss, net	(1,311,535)	(924,089)
Expenses in excess of revenue	(2,602,485)	(632,965)
Change in interest rate swap agreements	285,638	(565,099)
Change in unrealized gain (loss) on investments	(12,645)	(205,293)
Change in net assets	(2,329,492)	(1,403,357)
Net assets, beginning of year	59,515,807	60,919,164
Net assets, end of year	$ 57,186,315	$ 59,515,807

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, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patients and third party payors	$ 101,573,703	$ 97,383,902
Cash paid to employees for wages and benefits	(51,685,200)	(48,820,973)
Cash paid to vendors for goods and services	(42,200,745)	(43,809,160)
Other receipts	963,144	1,173,850
Net cash from operating activities	8,650,902	5,927,619
Noncapital financing activities		
Noncapital contributions	347,099	334,927
Capital and related financing activities		
Repayment of long-term debt	(3,220,013)	(3,248,480)
Proceeds from sale of capital assets	59,851	29,900
Interest paid	(2,027,679)	(1,854,948)
Acquisition of property and equipment	(1,661,990)	(2,026,215)
Net cash from capital and related financing activities	(6,849,831)	(7,099,743)
Investing activities		
Change in investments, net	(329,509)	(139,880)
Notes and other receivables	102,418	561,135
Interest received	369,047	595,932
Net cash from investing activities	141,956	1,017,187
Net change in cash and cash equivalents	2,290,126	179,990
Cash and cash equivalents		
Beginning of year	7,383,282	7,203,292
End of year	$ 9,673,408	$ 7,383,282
Cash and cash equivalents include the following		
Cash and cash equivalents	$ 8,142,647	$ 5,660,392
Investments and assets whose use is limited	1,530,761	1,722,890
Total cash and cash equivalents	$ 9,673,408	$ 7,383,282

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, 2009 AND 2008

	2009	2008
Reconciliation of operating income to net cash from operating activities		
Income (loss) from operations	$ (1,290,950)	$ 291,124
Adjustment to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	7,885,985	8,335,642
Loss on sale of assets	398,681	88,235
Bad debts	4,893,728	6,323,248
Changes in assets and liabilities:		
Patient accounts receivable	(3,199,839)	(6,164,098)
Inventories	(28,250)	(645,727)
Prepaid expenses and other assets	20,244	(308,466)
Trade accounts payable	(40,503)	(2,488,359)
Accrued salaries, wages and vacation	(289,282)	(49,946)
Estimated third-party settlements	301,088	545,966
Net cash from operating activities	$ 8,650,902	$ 5,927,619
Noncash investing, capital and financing activities		
Unrealized gain (loss) on investments	$ (12,645)	$ (205,293)
Decrease (Increase) in fair value of interest rate swap	$ 285,638	$ (565,099)

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 financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Clinton County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Clinton County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended.

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. (the Foundation), 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.

Investments

Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices. 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.

Patient Accounts Receivable and Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts. 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. 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.

Inventories

Inventories consist of medical supplies and pharmaceuticals and are stated at the lower of cost (first in, first out) or market.

Assets Whose Use is Limited

Assets whose use is limited consist of investments that are held by the trustee of revenue bonds and donor restricted funds for expendable and nonexpendable purposes. The funds held by the trustee are to be utilized for construction costs and related capital expenditures.

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.

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.

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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital's board of trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

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

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 in $7,469,000 and $5,559,000 2009 and 2008, respectively.

Federal Income Tax

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

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.

The Hospital maintains 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.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. These changes had no effect on the change in net assets.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 10, 2010.

2. DEPOSITS AND INVESTMENTS

At December 31, 2009 and 2008, the carrying amounts of the Hospital's bank deposits for all funds were $9,689,234 and $7,404,286 respectively, and the bank balances were $10,457,705 and $8,777,688, respectively. Of the bank balances, $1,000,000 and $1,025,777 at December 31, 2009 and 2008, respectively, were covered by Federal Depository Insurance. Of the remaining balances, $9,457,705 and $7,751,911, respectively, were collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name.

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

	December 31, 2009	
	Cost	Market
Cash	$ 9,673,408	$ 9,673,408
U.S. obligations	7,259,311	7,310,926
Other fixed income	107,352	111,751
Mutual funds	206,053	215,631
Equities	732,990	817,798
Total	$ 17,979,114	$ 18,129,514

	December 31, 2008	
	Cost	Market
Cash	$ 7,383,282	$ 7,383,282
U.S. obligations	7,135,224	7,373,404
Other fixed income	171,541	172,502
Equities	694,724	593,338
Total	$ 15,384,771	$ 15,522,526

The Hospital's investments are uninsured with the securities held by the counter party, or by its agent, in the Hospital's name. Investments with specified maturities, all of which are held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at December 31, 2009.

	Carrying Amount	Maturities	
		< 1 Year	1-5 Years
U.S. obligations	$ 7,310,926	$ 886,594	$ 6,424,332
Other fixed income	$ 111,751	$ 45,969	$ 65,782

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.

3. PROPERTY, BUILDINGS AND EQUIPMENT

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

	12/31/2008	Additions/ Transfers	Retirements	12/31/2009
Land and land improvements	$ 3,542,003	$ -	$ (3,475)	$ 3,538,528
Buildings and improvements	86,441,165	168,852	(6,352)	86,603,665
Equipment	52,853,611	976,013	(1,273,409)	52,556,215
Construction in progress	714,020	517,125	-	1,231,145
Total capital assets	143,550,799	1,661,990	(1,283,236)	143,929,553
Less accumulated depreciation				
Land improvements	1,438,200	137,299	(2,158)	1,573,341
Buildings and improvements	27,904,130	3,048,987	(6,352)	30,946,765
Equipment	33,443,024	4,699,699	(816,194)	37,326,529
Total accum. depreciation	62,785,354	7,885,985	(824,704)	69,846,635
Capital assets, net	$ 80,765,445	$ (6,223,995)	$ (458,532)	$ 74,082,918

	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 accum. 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

4. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2009 and 2008:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (0.55% at December 31, 2009) with final maturity June 1, 2026.

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2005, with varying rates (0.55% at December 31, 2009) with final maturity December 2035.

- County of Clinton, Ohio Series 2006A Note, interest rate of 5.15% due October 4, 2011.

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

	12/31/2008	Additions	Payments	12/31/2009	Amount Due within 1 year
2002 bonds	$ 30,195,000	$ -	$ 2,085,000	$ 28,110,000	$ 2,375,000
2005 bonds	11,025,000	-	630,000	10,395,000	660,000
2006 Notes	1,451,675	-	505,013	946,662	395,625
	$ 42,671,675	$ -	$ 3,220,013	$ 39,451,662	$ 3,430,625

	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

The 2002 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds (2002 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 2005 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds (2005 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 2002 Bonds and the 2005 Bonds place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance. The Hospital was in violation of indebtedness to unrestricted fund balance requirement as of December 31, 2009 and has obtained a waiver.

The 2002 and 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 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 within 368 days. The letter of credit expires on June 15, 2011 (see Note 12). The letter of credit is collateralized by the future revenues of the Hospital.

Scheduled payments on the long-term debt 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
2010	$ 3,430,625	$ 257,591	$ 382,563	$ 4,070,779
2011	4,161,037	213,460	358,248	4,732,745
2012	1,945,000	175,230	332,856	2,453,086
2013	2,030,000	164,533	306,178	2,500,711
2014	2,115,000	153,368	278,208	2,546,576
2015-2019	12,065,000	581,625	228,206	12,874,831
2020-2024	11,285,000	239,085	-	11,524,085
2025-2027	2,420,000	15,318	-	2,435,318
	$ 39,451,662	$ 1,800,210	$ 1,886,259	$ 43,138,131

5. DERIVATIVE FINANCIAL INSTRUMENT – INTEREST RATE SWAP

Objectives and Strategies for Using Derivatives

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

At December 31, 2009, the Hospital had outstanding an interest rate swap agreement with Fifth Third Bank, that had an outstanding notional amount of $10,395,000 at December 31, 2009. The agreement effectively changes the Hospital's interest rate on the 2005 Bonds to a fixed rate of 4.23%. The interest rate swap agreement terminates on January 1, 2016. The Hospital is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Hospital does not anticipate nonperformance by the counterparties.

The interest rate swap agreement is designated as a hedging instrument, and is marked-to-market on the balance sheet at fair value at the end of each period. The related gains and loss are included in change in net assets for the reporting period. Cash flows from interest rate swap contracts are classified as a capital and related financing activity on the statement of cash flows.

Tabular Disclosures

The asset derivatives are reported in the balance sheet as other assets and liability derivatives are reported as other liabilities. At December 31, 2009, the fair values of derivatives recorded in the balance sheet are as follows:

	Liabilities
Other liabilities	$ 957,522

During 2009, the amounts of gain (loss) recognized in the statement of operations (and their locations) are as follows:

	Non-operating
Change in interest rate swap	$ 285,638

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in Note 7.

6. ENDOWMENT AND RESTRICTED NET ASSETS

Restricted net assets have been recorded for the following purposes:

	2009	2008
Restricted - held by trustee	$ 564,111	$ 741,466
Restricted expendable:		
Specific activities	1,276,914	1,475,261
Capital acquisitions	59,710	64,616
Restricted nonexpendable:		
Permanent endowments	2,615,929	2,412,676
	$ 4,516,664	$ 4,694,019

Restricted nonexpendable net assets include the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the authority's permanent endowments are expendable to support these programs as established by the contributor.

Unless the contributor provides specific instructions, state law permits the Hospital's Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments.

When administering its power to spend net appreciation, the board of trustees is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

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).

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. obligations	$ -	$ 7,310,926	$ -	$ 7,310,926
Other fixed income	-	111,751	-	111,751
Mutual funds	-	215,631	-	215,631
Equities	817,798	-	-	817,798
Total	$ 817,798	$ 7,638,308	$ -	$ 8,456,106
Liabilities:				
Interest rate swap	$ -	$ 957,522	$ -	$ 957,522

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. obligations	$ -	$ 7,373,404	$ -	$ 7,373,404
Other fixed income	-	172,502	-	172,502
Equities	593,338	-	-	593,338
Total	593,338	7,545,906	-	8,139,244
Liabilities:				
Interest rate swap	$ -	$ 1,243,160	$ -	$ 1,243,160

The carrying value of the Hospital's long-term debt approximates fair value based upon the variable nature of the interest rates associated with the primary component of the Hospital's debt.

8. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of cash and cash equivalents, patient accounts receivable, and assets limited as to use or restricted.

The Hospital places its cash and cash equivalents with high credit quality financial institutions. The Hospital periodically maintains cash balances which are in excess of those insured by the Federal Depository Insurance Corporation. There is a limited concentration of credit risk with respect to assets limited as to use or restricted due to no one investment or group of similar investments creating a significant concentration.

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements.
Concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients, and other group insurance programs.

The mix of accounts receivable (AR) and gross patient revenue (Revenue) from patients and third-party payers in 2009 and 2008 follows:

	2009		2008	
	AR	Revenue	AR	Revenue
Medicare	34%	42%	35%	42%
Medicaid	15%	16%	13%	13%
Other third party payors	27%	40%	33%	43%
Self pay patients	24%	2%	19%	2%
	100%	100%	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.

9. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board's Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

2009	$ 5,237,149
2008	$ 5,061,941
2007	$ 5,237,195

Hospital contributions made to fund post-employment healthcare benefits approximated $2,200,000, $2,619,000 and $2,080,000 for 2009, 2008 and 2007, respectively, which are included in the table above.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

10. RISKS AND UNCERTAINTIES

During 2009, the Hospital suffered a decrease in net assets of approximately $2,300,000. A major employer which employed approximately 8,000 people in and around Wilmington closed its operations in 2009. Approximately 5% of the Hospital's revenue came from employees and enrollees of the health plan of this organization. The full impact of this closing is uncertain at this time.

The Hospital anticipates that the County Commissioners will endorse a recommendation made by the Hospital's Board of Directors for an asset purchase of the Hospital by RegionalCare Hospital Partners. After the endorsement, the Hospital will enter into a formal letter of intent with RegionalCare and begin the due diligence process which is expected to last no more than 90 days.

11. COMMITMENT AND CONTINGENCIES

The Hospital has committed to information systems contracts totaling approximately $3,900,000 to complete the initial installation of the Operation Integration project. The installation is planned to be completed in 2011.

12. SUBSEQUENT EVENT

The letter of credit from the bank backing the Hospital's bonds was due to expire on June 14, 2010. Subsequent to year end, the letter of credit was extended until June 15, 2011. In addition, the scheduled bond redemptions were modified to reflect an increase in redemptions of $ 250,000 and $ 1,750,000 during 2010 and 2011, respectively. The scheduled maturities in Note 4 have been revised to include the increase in bond redemptions.

CPAS / ADVISORS

blue

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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*

Board of Trustees
Clinton Memorial Hospital d/b/a CMH Regional Health System
Wilmington, Ohio

We have audited the combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 10, 2010. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business type activities of Clinton County that is attributable to the transactions of the Hospital. 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. We conducted our audit in accordance with auditing standards generally accepted in the United State 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

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 June 10, 2010.

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

June 10, 2010

Mary Taylor, CPA
Auditor of State

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
JULY 27, 2010

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