

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

**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2003 and 2002**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Clinton Memorial Hospital d/b/a CMH Regional System

We have reviewed the Independent Auditor's Report of the Clinton Memorial Hospital d/b/a CMH Regional System, Clinton County, prepared by Blue & Co., LLC for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

September 10, 2004

**This Page is Intentionally Left Blank.**

CLINTON MEMORIAL HOSPITAL  
d/b/a CMH REGIONAL HEALTH SYSTEM  
TABLE OF CONTENTS  
DECEMBER 31, 2003 and 2002

	Page
Report of Independent Auditors	1
Required Supplementary Information:	
Management's Discussion and Analysis (Unaudited)	i-x
Combined Financial Statements:	
Combined Balance Sheets	3
Combined Statements of Operations and Changes in Net Assets	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements in Accordance With <i>Government Auditing Standards</i>	18

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

Wilmington, Ohio

We have audited the accompanying combined balance sheets of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital), a component unit of Clinton County, Ohio, as of December 31, 2003 and 2002, 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 audit 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.

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, 2003 and 2002, 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.

As discussed in Note 1 to the financial statements, effective January 1, 2003, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, and GASB 37 – Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus, GASB 38 – Certain Financial Disclosures and GASB 39 – Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement 14.

Board of Trustees

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 29, 2004, 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 grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

BLUE & CO., LLC

April 29, 2004

# **CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS**

CMH Regional Health System operates Clinton Memorial Hospital (CMH), a short term acute care hospital with a sub-acute care skilled nursing unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The system also consists of four physician practices, an urgent care center, occupational medicine services, home health services, community dental services, community health services, and a family medicine resident training program. In 2003, CMH Regional Health System served 4,335 inpatients and over 207,000 outpatients throughout the organization. The financial information presented in this discussion and analysis, with the exception of actual vs. budget information, includes the financial position and result of operations of the Clinton Memorial Hospital Foundation, Inc., a component unit of CMH Regional Health System.

In 2000, the organization embarked upon a \$44 million expansion program on the main campus in Wilmington. This expansion replaced all the inpatient acute care beds and surgery facilities, expanded the emergency center, and renovated various other departments within the hospital. During 2003, the major portion of the expansion project, the new patient tower, was completed and occupied. Completion of the remaining expansion phases is expected in 2004.

Our discussion and analysis of CMH Regional Health System's financial performance provides an overview of the system's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the financial statements, which begin on page 3.

## **Financial Highlights for FY 2003**

- CMH reported an operating loss of \$797,001.
- Net non-operating gains totaled \$1,136,864.
- The operating losses combined with the net non-operating gains resulted in the total revenues and gains in excess of expenses of \$339,863.
- Total patient revenues increased by \$2,376,832 or 3.3 percent over the previous year, while total operating revenues increased by \$1,956,967 or 2.6 percent compared to the previous year.
- Total operating expenses increased by \$5,608,495 or 7.7 percent compared to the previous year.

## **Using This Annual Report**

CMH Regional Health System's 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 Statement of Operations and Changes in Net Assets

Our analysis of CMH Regional Health System's finances begins on page iii. 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 – 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 financing activities.

### Net Assets

CMH Regional Health System's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The net assets increased in FY 2003 by \$150,770 or 0.2 percent over those reported in FY 2002 (see Table I).

**Table 1: Assets, liabilities, and Net Assets**

	<b>FY 2003</b>	<b>FY 2002</b>
<b>Assets:</b>		
Current Assets	\$ 32,748,171	\$ 41,111,579
Capital assets, net	70,115,350	61,445,981
Other noncurrent assets	6,594,977	8,297,285
Total assets	<u>109,458,498</u>	<u>110,854,845</u>
<b>Liabilities:</b>		
Long-term debt outstanding	34,982,195	35,599,097
Other current liabilities	12,465,483	13,395,700
Total liabilities	<u>47,447,678</u>	<u>48,994,797</u>
<b>Net assets:</b>		
Unrestricted	24,076,244	31,903,094
Invested in capital assets, net of related debt	33,916,253	25,504,624
Restricted	4,018,323	4,452,330
Total net assets	<u>62,010,820</u>	<u>61,860,048</u>

## Operating Results and Changes in Net Assets

In 2003, CMH Regional Health System's net assets increased by \$150,770 or 0.2 percent, as shown in Table 2. This increase is made up of very different components and represents a decline of 96 percent compared with the increase in net assets for 2002 of \$4,239,234.

**Table 2: Operating Results and Changes in Net Assets**

	FY 2003	FY 2002
<b>Operating revenues:</b>		
Net patient service revenues	\$ 74,655,405	\$ 72,278,573
Other operating revenues	2,655,540	3,075,405
<b>Total operating revenues</b>	<u>77,310,945</u>	<u>75,353,978</u>
<b>Operating expenses:</b>		
Salaries and benefits	42,576,371	39,025,448
Supplies	11,026,176	10,202,069
Professional and purchased services	9,652,927	10,083,752
Depreciation and rent	5,343,900	4,261,645
Provision for bad debts	1,905,731	2,588,724
Interest	429,067	300,346
Other operating expenses	7,173,774	6,037,467
<b>Total operating expenses</b>	<u>78,107,946</u>	<u>72,499,451</u>
 (Loss) income from operations	 (797,001)	 2,854,527
 <b>Nonoperating gains, net</b>	 <u>1,136,864</u>	 <u>1,457,723</u>
 <b>Revenues and gains in excess of expenses</b>	 339,863	 4,312,250
Change in unrealized gains and (losses) on investments	(189,091)	(73,016)
 <b>Net assets, beginning of year</b>	 61,860,048	 57,620,814
<b>Net assets, end of year</b>	<u>\$ 62,010,820</u>	<u>\$ 61,860,048</u>

## Operating Losses

The first component of the overall change in the organization's net assets is its Income (loss) from operations, - the difference between net patient service revenues and the expenses incurred to perform those services. In FY 2003, CMH Regional Health System experienced an operating loss of \$797,001 following the previous year's gain of \$2,854,527. The main contributions to this operating loss were:

- An increase in the level of uncompensated care of \$1,019,664 over the previous year. These charity care services were provided for which there is no expectation of payment.
- Increases in salary and benefit costs for the hospital employees of \$3,550,923 or 9.0 percent higher than the previous year.
- An increase in total liability and other insurance costs of \$409,729 over FY2002.
- An increase in depreciation expenses of \$711,280 in FY 2003.

Uncompensated care grew by 33.6 percent to \$4,026,105 in FY 2003 over FY 2002. There were two factors that influenced this trend. First, the economic conditions of FY 2003 increased the number of residents without insurance or placed a heavier burden of deductible and coinsurance on employees who had benefits. Second, the organization discontinued the outsourcing of uninsured accounts in late 2002. The company used for this outsourcing was historically quick to classify accounts as bad debts, thus placing accounts in a higher percentage category for collection fees, rather than determining if patients met criteria for the state of Ohio's Hospital Care Assurance Program (HCAP). HCAP reimburses hospitals for those patients determined to be indigent and unable to pay for hospital services rendered. The organization's financial counselors on staff were aggressive in determining patients as indigent, thus eligible for HCAP payments. As a result, patients accounts classified as bad debts fell by 26.4 percent in FY 2003.

A general salary increase of 2 percent was Board approved in November of 2002. Additional salary increases occurred for several difficult-to-recruit classifications of employees, increasing costs by an additional \$275,000. Health insurance benefits for employees in FY 2003 increased by \$730,706 or 17.7 percent compared to FY 2002. The number of paid employees on staff increased by 4.8 percent in FY 2003 compared to FY 2002.

During the last few years, Ohio has experienced a medical professional liability crisis. Tort reform, although passed by the state legislature in 2002, will not have an impact on stabilizing rates for several years. CMH had locked in rates for medical professional insurance for three years beginning in FY 2000. Thus, the renewal for FY 2003 increased by \$411,909 or 77 percent compared to FY 2002.

CMH Regional Health System completed the new patient tower during FY 2003. This addition's costs amounted to over \$33 million. As a result of capitalizing this new asset and recording depreciation associated with this building investment and related equipment purchases, depreciation expenses increased by \$711,280 in FY 2003.

## **Non-operating Revenues and Expenses**

In conjunction with the campus expansion of the new patient tower, the CMH Foundation initiated a capital campaign drive for financial support from local business and the communities. The campaign resulted in almost \$3.5 million in pledges. These funds were restricted to the use of the construction of the patient tower and renovations of the facilities on the main hospital campus.

## **Capital Assets and Debt**

During FY 2002, CMH Regional Health System issued \$35 million in variable interest rate Revenue Bonds through the County of Clinton. These funds were used to repay existing debt from two previous bond issues totaling \$28.2 million and finance the remaining costs of the patient tower. The remaining outlays for the renovations and emergency and laboratory departments' expansion are to be paid from existing hospital reserves. A total of \$442,759 is being held in a trust account at the end of FY 2003 for the first debt payment of \$885,000 on the bonds due in June, 2004. Any asset costing more than \$500 with a useful life equal to or greater than three years is capitalized with the cost amortized over the expected life of the asset.

## **CMH Regional Health System Cash Flows**

Total cash holdings declined by \$11,203,743 or 46 percent during FY 2003. A total of \$13.3 million was invested in plant and equipment during FY 2003, a majority related to the main campus expansion project. Other cash flows are consistent with the changes in operating losses, increases in patient accounts receivable, and payments to reduce the current liabilities.

## **Budget Comparison**

CMH Regional Health System experienced actual financial results that had significant 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 organization's operations. Table 3 summarizes the comparison of actual operational results for the Hospital to budget for FY 2003. The single largest variance from budget was the deductions from revenues that resulted in the net patient revenues falling short of budget by \$1.7 million.

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

	<b>Actual FY 2003</b>	<b>Budget FY 2003</b>
<b>Operating Revenues:</b>		
Gross patient service revenues	\$ 109,763,986	\$ 109,070,709
Less: Deductions from revenues	<u>35,108,581</u>	<u>32,698,259</u>
Net patient revenues	74,655,405	76,372,450
Other operating revenues	<u>1,649,520</u>	<u>1,736,879</u>
<b>Total operating revenues</b>	<u><u>76,304,925</u></u>	<u><u>78,109,329</u></u>
<b>Operating Expenses:</b>		
Salaries and benefits	42,576,371	41,900,526
Supplies	11,026,176	10,998,421
Professional and purchased services	9,652,927	9,231,631
Depreciation and rent	5,015,373	5,211,267
Provision for bad debts	1,905,731	2,800,390
Interest	429,067	702,779
Other operating expenses	<u>6,330,550</u>	<u>5,946,229</u>
<b>Total operating expenses</b>	<u><u>76,936,195</u></u>	<u><u>76,791,243</u></u>
<b>Operating gain (loss)</b>	(631,270)	1,318,086
<b>Non-operating Revenues and Expenses</b>	<u>1,602,231</u>	<u>1,518,931</u>
<b>Revenues &amp; Gains in Excess of Expenses</b>	<u><u>\$ 970,961</u></u>	<u><u>\$ 2,837,017</u></u>

**Deductions From Revenues**

Total net patient revenues fell short of expected budget by \$1.7 million. 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) and amounts written off as charity care for those unable to pay for services rendered. Table 4 displays the actual versus budget comparison for deductions from revenue for FY 2003.

**Table 4: Deductions from Revenue – Actual versus Budget - Hospital**

	<u>Actual</u> <u>FY 2003</u>	<u>Budget</u> <u>FY 2003</u>	<u>Percent</u> <u>Variance</u>
Contractual Adjustments - Inpatients	\$ 10,432,947	\$ 9,327,989	11.8%
Contractual Adjustments - Outpatients	20,667,333	20,207,219	2.3%
Contractual Adjustments - Other	(17,804)	-	-
Charity Care	<u>4,026,105</u>	<u>3,163,051</u>	27.3%
Total	<u>\$ 35,108,581</u>	<u>\$ 32,698,259.0</u>	7.4%

Contractual adjustments on inpatient accounts varied from budget by \$1.1 million or 11.8 percent. Most inpatient services are financially covered by the Medicare and/or Medicaid programs. Both programs pay on a per discharge basis, encouraging providers to minimize patient length of stays. During FY 2003, the average length of stay for Medicare and Medicaid acute patients increased by 6.0 and 12.2 percent respectively. This effectively increased the charges per case by an average of \$334. That additional average amount was written off as contractual adjustment for each Medicare and Medicaid patient discharge. The total number of Medicare and Medicaid inpatients for FY 2003 was 3,158, resulting in an additional contractual adjustments total of approximately \$1,055,000.

During FY 2003, the amounts written off as charity care exceeded budget by \$863,054, a variance of 27.3 percent. This variance was influenced by two factors: the deterioration of the economy and a change in the organization's handling of patient accounts not sponsored by third party payers. As discussed earlier, the organization discontinued the outsourcing of uninsured accounts in late FY 2002. The company used for this outsourcing was historically quick to classify accounts as bad debts, thus placing accounts in a higher percentage category for collection fees, rather than determining if patients met criteria for the state of Ohio's Hospital Care Assurance Program. The organization's financial counselors on staff were aggressive in determining patients as indigent. As a result of this action, the amount of services placed in collection agencies as bad debts declined by \$682,993 or 26.4 percent, while the charity care amounts written off increased \$1,019,664 or 33.9 percent.

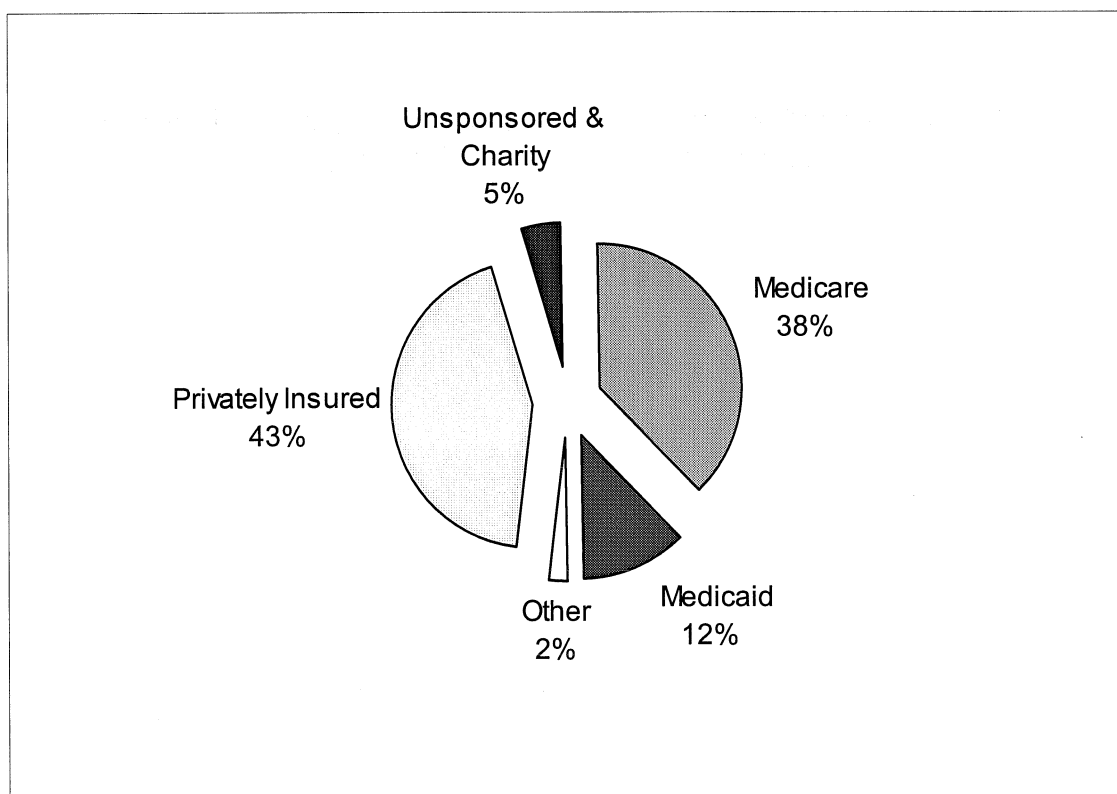
### **Patient Payer Mix**

The demographics of the service market can impact payer mix and the ability of the organization to make timely collections for services rendered. Table 5 displays the payer mix for FY 2003. As indicated by the pie chart below, private insurance and Medicare predominantly cover the patients served by CMH Regional Health System.

The organization maintains contracts with all major private insurance companies and is a participating provider for the Medicare and Medicaid programs. Claims are filed

electronically with most payers. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires the Department of Health and Human Services to establish national standards for electronic health care transactions and national identifiers for providers, health plans, and employers. The Administrative Simplification provisions of HIPAA included standardization of electronic transactions and code sets and required all providers to file HIPAA compliant electronic claims by October 16, 2003. Due to delays in establishing these standards, the Centers of Medicare and Medicaid Services (CMS) temporarily suspended the deadline for claims compliance. It is expected CMH Regional Health System will be prepared to submit HIPAA compliance claims when CMS announces the new deadline.

**Table 5: Patient Payer Mix**



**Benchmarking**

CMH Regional Health System regularly tracks industry benchmarks to determine efficiency and financial health of the organization. Financial ratios are also followed to determine compliance with existing bond covenants. Table 6 represents the financial outcome indicators comparison for the industry, prior year actual, and current year actual.

**Table 6: Financial Outcomes Indicators (Hospital Only)**

<b>INDICATORS</b>	<b><u>Industry *</u></b>	<b><u>Final 2002</u></b>	<b><u>Actual 2003</u></b>
<b>OPERATING EFFICIENCY</b>			
Cost per Discharge (Case Mix & Wage Index adj)	\$6,100.00	\$5,195.69	\$5,340.56
Cost per Visit (Wage Index adj)	\$325.07	\$236.85	\$252.11
FTEs per Adjusted Daily Census	5.64	4.84	4.92
Patient Revenue Growth	n/a	4.4%	3.3%
Net Operating Revenue Growth	n/a	5.1%	2.6%
Operating Expense Growth	n/a	11.3%	6.8%
Contractual Adjustment Percentage	47.1%	29.6%	32.0%
All Patient Case Mix Index	1.1468	1.061	1.0794
Patient Length of Stay (days)	4.66	3.48	3.62
<b>PROFITABILITY RATIOS:</b>			
Total Margin	2.1%	4.1%	1.5%
Return on Equity	3.9%	5.4%	2.1%
Growth Rate in Equity	2.7%	5.1%	1.8%
<b>LIQUIDITY RATIOS:</b>			
Days Revenue in Accounts Receivable	55.8	42.0	50.1
Average Payment Period - Days	56	66.9	54.8
Days Cash on Hand (All Sources)	108.6	158.0	91.0
<b>CAPITAL STRUCTURE RATIOS:</b>			
Long-Term Debt to Capitalization	33.8%	39.2%	37.8%
Fixed Asset Financing	66.7%	58.6%	50.0%
Cushion Ratio	11.7	43.9	10.4
<b>ASSET EFFICIENCY RATIOS:</b>			
Total Asset Turnover	0.9	1.0	1.1
Fixed Asset Turnover	2.2	1.2	1.1
Average Age of Plant	9.1	7.8	7.7
<b>BOND COVENANT RATIOS</b>			
Current Ratio**	1.5	2.7	2.3
Debt Service Coverage**	2.0	3.4	7.9
Indebtedness to Fund Balance**	85.0%	87.0%	80.1%

\* S&P A Rated (Source: 2002 Center for Healthcare Industry Performance Studies)

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



As indicated by the comparisons displayed by Table 5, profitability ratios fell significantly from the prior year and well below the industry standard of hospitals achieving an "A" rating from Standard and Poors. As mentioned previously, the use of the hospital's reserves for the main campus expansion project has reduced the days cash on hand to 86.4, a decrease of 45.6 percent from one year ago levels, and over 20 percent below the industry standard.

There are three ratios associated with covenants of the 2002 bond issue that the organization must comply. CMH Regional Health System must maintain the current ratio and debt service coverage ratio above the 1.5 and 2.0 levels respectively and maintain the indebtedness to fund balance below 85 percent. CMH was in compliance with all three ratios of the covenants of the bond issue in 2003.

### **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, 2003 and 2002**

ASSETS

	2003	2002
Current assets:		
Cash and cash equivalents	\$ 13,235,100	\$ 24,438,843
Short-term investments	2,769,244	1,838,371
Patient accounts receivable, less allowance for doubtful accounts of \$2,133,000 in 2003 and \$2,802,000 in 2002	10,256,943	8,369,469
Notes and other receivables	1,306,022	1,034,391
Inventories	1,172,316	1,065,455
Estimated third-party payor settlements	533,137	596,093
Prepaid expenses and other	3,475,409	3,768,957
Total current assets	32,748,171	41,111,579
Assets whose use is limited - held by trustee	442,759	2,155,068
Capital assets, net	70,115,350	61,445,981
Other assets:		
Investments	4,447,327	4,792,890
Notes and other receivables	1,704,891	1,349,327
Total other assets	6,152,218	6,142,217
Total assets	\$ 109,458,498	\$ 110,854,845

## LIABILITIES AND NET ASSETS

	2003	2002
Current liabilities:		
Trade accounts payable	\$ 4,268,029	\$ 5,837,849
Accrued salaries and wages	1,193,285	1,021,443
Accrued vacation	2,687,412	2,575,416
Other accrued expenses	3,099,855	3,618,732
Current portion of long-term debt	1,216,902	342,260
Total current liabilities	12,465,483	13,395,700
Long-term debt, less current portion	34,982,195	35,599,097
Total liabilities	47,447,678	48,994,797
 Net assets:		
Unrestricted	24,076,244	31,903,094
Invested in capital assets, net of related debt	33,916,253	25,504,624
Restricted	4,018,323	4,452,330
	62,010,820	61,860,048
Total liabilities and net assets	\$ 109,458,498	\$ 110,854,845

*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, 2003 and 2002**

	2003	2002
Revenues:		
Net patient service revenue	\$ 74,655,405	\$ 72,278,573
Other operating revenue	2,655,540	3,075,405
Total revenues	77,310,945	75,353,978
Operating expenses:		
Salaries and wages	32,046,738	29,806,469
Employee benefits	10,529,633	9,218,979
Supplies	11,026,176	10,202,069
Purchased services	6,921,142	7,066,970
Depreciation and rent	5,343,900	4,261,645
Provision for bad debts	1,905,731	2,588,724
Occupancy	3,004,742	2,646,948
Physician fees	2,731,785	3,016,782
Insurance	1,043,296	633,567
Interest	429,067	300,346
Other	3,125,736	2,756,952
Total operating expenses	78,107,946	72,499,451
(Loss) income from operations	(797,001)	2,854,527
Nonoperating gains, net	1,136,864	1,457,723
Revenue and gains in excess of expenses	339,863	4,312,250
Change in unrealized gains and losses on investments	(189,091)	(73,016)
Net assets, beginning of year	61,860,048	57,620,814
Net assets, end of year	\$ 62,010,820	\$ 61,860,048

*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, 2003 and 2002**

	2003	2002
Operating activities:		
Cash received for patients and third party payors	\$ 70,925,156	\$ 69,775,549
Cash paid to employees for wages and benefits	(42,811,410)	(38,241,007)
Cash paid to vendors for goods and services	(30,603,170)	(26,685,611)
Other receipts, net	2,459,474	4,545,213
Net cash from operating activities	(29,950)	9,394,144
Capital and related financing activities:		
Repayment of long-term debt	(342,260)	(18,538,532)
Issuance of long-term debt	600,000	35,000,000
Interest expense	(429,067)	(300,346)
Acquisition of property and equipment	(13,280,698)	(19,993,089)
Contributions	99,488	34,493
Net cash from capital and related financing activities	(13,352,537)	(3,797,474)
Investing activities:		
Change in investments, net	1,126,999	(779,620)
Interest income	1,050,151	669,783
Other	1,594	(434,096)
Net cash from investing activities	2,178,744	(543,933)
Net change in cash and cash equivalents	(11,203,743)	5,052,737
Cash and cash equivalents:		
Beginning of year	24,438,843	19,386,106
End of year	\$ 13,235,100	\$ 24,438,843
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ (797,001)	\$ 2,854,527
Interest expense considered capital financing activity	429,067	300,346
Adjustment to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	4,580,996	3,850,372
Proceeds from sale of assets	-	1,400,000
Loss (gain) on disposal of assets	15,964	(499,297)
Change in unrealized gains and losses on investments	(189,091)	(73,016)
Bad debts	1,905,731	2,588,724
Changes in assets and liabilities:		
Patient accounts receivable	(3,793,205)	(1,825,902)
Notes and other receivables	(627,195)	(382,101)
Inventories	(106,861)	(100,784)
Prepaid expenses and other assets	293,548	(205,533)
Trade accounts payable	(1,569,820)	1,379,489
Accrued salaries, wages and other	(235,039)	784,441
Estimated third-party settlements	62,956	(677,122)
Net cash from operating activities	\$ (29,950)	\$ 9,394,144

*See accompanying notes to combined financial statements.*

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

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

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 and 2002**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Changes in Accounting Principles

Effective January 1, 2003, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments as amended by GASB 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB 38, Certain Financial Statement Disclosures and GASB 39 – Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement 14. GASB 34 establishes financial reporting standards for all state and local governments and related entities. The impact of this accounting change related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the cash flow statement on the direct method.

Property, Buildings and Equipment

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. Property, buildings and equipment are stated at cost or fair market value at date of donation.

Assets Whose Use is Limited

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

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts. Revenue from the Medicare and Medicaid programs accounted for approximately 51 percent and 50 percent of the Hospital's net patient service revenue for the years ended December 31, 2003 and 2002, 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 maintains an allowance for doubtful accounts based upon the expected collectibility of patient accounts receivable.

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.

Charity Care

The Hospital treats patients regardless of their ability to pay. Amounts not collected under indigent care programs are considered to be charity care. Charity care measured at established rates approximated \$4,026,000 and \$3,006,000 in 2003 and 2002, respectively.

Professional Liability Insurance

The Hospital's professional liability insurance is underwritten through Ohio Hospital Insurance Company, a private insurer. Professional liability coverage is provided up to \$1 million per occurrence with an annual aggregate of \$3 million and excess insurance of \$7 million for professional and general liability risks.

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.



**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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.

2. DEPOSITS AND INVESTMENTS

At December 31, 2003 and 2002, the carrying amount of the Hospital's bank deposits for all funds was \$10,975,788 and \$7,601,613 respectively, and the bank balance was \$11,577,093 and \$7,518,764, respectively. Of the bank balance, \$700,000 and \$600,000 at December 31, 2003 and 2002, respectively, is covered by Federal Depository Insurance. Of the remaining balance, \$0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name, \$8,263,172 and \$3,768,449, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and \$2,613,921 and \$3,150,315, respectively, was not collateralized. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

	December 31, 2003		December 31, 2002	
	Cost	Market	Cost	Market
Cash	\$ 10,975,788	\$ 10,975,788	\$ 7,567,518	\$ 7,567,518
Other short-term investments	-	-	5,134,119	5,134,119
U.S. Treasury	1,546,042	1,542,783	8,804,977	8,841,443
Corporate bonds	-	-	1,980,000	1,980,000
U.S. Government/Agencies	8,357,749	8,375,859	9,534,616	9,702,092
Total	\$ 20,879,579	\$ 20,894,430	\$ 33,021,230	\$ 33,225,172

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

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 and 2002**

3. CAPITAL ASSETS

Capital assets consist of the following at December 31:

	<u>12/31/2002</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>12/31/2003</u>
Land and land improvements	\$ 2,552,201	\$ -	\$ 379,075	\$ 2,931,276
Buildings and improvements	33,950,500	1,023,667	32,808,009	67,782,176
Equipment	25,148,602	5,499,286	(263,726)	30,384,162
Construction in progress	30,318,977	6,757,745	(33,333,232)	3,743,490
Total capital assets	<u>91,970,280</u>	<u>13,280,698</u>	<u>(409,874)</u>	<u>104,841,104</u>
Less accumulated depreciation:				
Land improvements	726,479	98,784	-	825,263
Buildings and improvements	12,805,269	1,816,139	-	14,621,408
Equipment	16,992,551	2,666,073	(379,541)	19,279,083
Total accumulated depreciation	<u>30,524,299</u>	<u>4,580,996</u>	<u>(379,541)</u>	<u>34,725,754</u>
Capital assets, net	<u>\$ 61,445,981</u>	<u>\$ 8,699,702</u>	<u>\$ (30,333)</u>	<u>\$ 70,115,350</u>
	<u>12/31/2001</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>12/31/2002</u>
Land improvements	\$ 2,908,391	\$ 71,085	\$ (427,275)	\$ 2,552,201
Buildings and improvements	30,425,665	4,185,774	(660,939)	33,950,500
Equipment	24,007,428	1,485,066	(343,892)	25,148,602
Construction in progress	16,067,813	14,251,164	-	30,318,977
Total capital assets	<u>73,409,297</u>	<u>19,993,089</u>	<u>(1,432,106)</u>	<u>91,970,280</u>
Less accumulated depreciation:				
Land improvements	666,188	60,291	-	726,479
Buildings and improvements	11,770,709	1,328,380	(293,820)	12,805,269
Equipment	14,768,433	2,461,701	(237,583)	16,992,551
Total accumulated depreciation	<u>27,205,330</u>	<u>3,850,372</u>	<u>(531,403)</u>	<u>30,524,299</u>
Capital assets, net	<u>\$ 46,203,967</u>	<u>\$ 16,142,717</u>	<u>\$ (900,703)</u>	<u>\$ 61,445,981</u>

In connection with the capital improvements the hospital has capitalized interest of approximately \$249,320 and \$434,000 for the years ended December 31, 2003 and 2002, respectively.

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

4. CONCENTRATIONS OF CREDIT RISK

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

	<u>2003</u>	<u>2002</u>
Medicare	40%	35%
Medicaid	10%	9%
Other third-party payors	36%	36%
Self pay patients	14%	20%
	<u>100%</u>	<u>100%</u>

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

5. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2003 and 2002:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (1.5% at December 31, 2003) with final maturity June 1, 2026.
- Installment note, interest at 8% annually, monthly payments of \$2,427 including interest with final maturity December 2003.
- Note payable, interest only at varying rates with a single principle payment due July 1, 2008.

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 and 2002**

5. LONG-TERM DEBT AND LEASES (continued)

	12/31/2002	Additions	Payments	12/1/31/03	Amount Due within 1 year
2002 bonds, issued June 2002	\$ 35,000,000	\$ -	\$ -	\$ 35,000,000	\$ 885,000
Installment note	27,895	-	27,895	-	-
Capital leases	913,462	-	314,365	599,097	331,902
Note payable	-	600,000	-	600,000	-
	<u>\$ 35,941,357</u>	<u>\$ 600,000</u>	<u>\$ 342,260</u>	<u>\$ 36,199,097</u>	<u>\$ 1,216,902</u>

	12/31/2001	Additions	Payments	12/31/2002	within 1 year
1992 bonds, refunded 2002	\$ 2,700,000	\$ -	\$ 2,700,000	\$ -	\$ -
1998 bonds, refunded 2002	15,515,000	-	15,515,000	-	-
2002 bonds, issued June 2002	-	35,000,000	-	35,000,000	-
Installment note	53,563	-	25,668	27,895	27,895
Capital leases	1,211,326	-	297,864	913,462	314,365
	<u>\$ 19,479,889</u>	<u>\$ 35,000,000</u>	<u>\$ 18,538,532</u>	<u>\$ 35,941,357</u>	<u>\$ 342,260</u>

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

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

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

5. LONG-TERM DEBT AND LEASES (continued)

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

Year Ending December 31	Capital Lease Obligations	Principal Payments on Long-Term Debt	Interest Payments on Long-Term Debt
2004	\$ 356,107	\$ 885,000	\$ 532,891
2005	269,487	920,000	518,552
2006	-	960,000	503,605
2007	-	1,000,000	488,051
2008-2012	-	6,240,000	2,082,643
2013-2017	-	6,890,000	1,575,898
2018-2022	-	8,415,000	970,444
2023-2027	-	10,290,000	250,920
	<u>\$ 625,594</u>	<u>\$35,600,000</u>	<u>\$6,923,004</u>
Less Amount representing interest on obligation under capital lease	(26,497)		
	<u>\$ 599,097</u>		

The net carrying value of assets recorded under capital lease was \$379,920 and \$698,209 at December 31, 2003 and 2002, respectively.

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

6. FUTURE MINIMUM RENTAL EXPENSE AND INCOME

Rent expense amounted to approximately \$603,000 and \$363,000 in 2003 and 2002, respectively. The leases expire through 2047.

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

2004	\$	723,407
2005		625,788
2006		498,118
2007		499,921
2008		468,111
Thereafter		4,726,000
Total	\$	<u>7,541,346</u>

The Hospital owns one medical office building and leases two facilities from which it earns rental income under operating leases. The minimum future rentals to be received total \$224,992 and are due in 2004.

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

7. PENSION PLAN

All Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6705 or (800) 222-PERS (7377).

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total Hospital payroll	<u>\$ 32,047,000</u>	<u>\$ 29,800,000</u>	<u>\$ 26,432,000</u>
Total Hospital covered payroll	<u>\$ 31,757,377</u>	<u>\$ 29,120,000</u>	<u>\$ 26,135,000</u>
Total Hospital contributions	\$ 4,551,603	\$ 3,946,000	\$ 3,541,000
Total employee contributions	<u>2,699,377</u>	<u>2,475,000</u>	<u>2,221,000</u>
Total contributions	<u>\$ 7,250,980</u>	<u>\$ 6,421,000</u>	<u>\$ 5,762,000</u>

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2003 and 2002 employer contribution rates of 13.55% used to fund healthcare was 5.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 and 2002**

7. PENSION PLAN (continued)

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

8. BLENDED COMPONENT UNIT

The Hospital's combined financial statements include the accounts of the Clinton Memorial Hospital Foundation, Inc., a blended component unit of the Hospital. The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2003 and 2002:

	2003	2002
Cash and cash equivalents	\$ 2,914,266	\$ 3,605,786
Capital assets	1,376,922	413,576
Other assets	2,545,454	2,965,449
Total assets	<u>\$ 6,836,642</u>	<u>\$ 6,984,811</u>
Accounts payable and other liabilities	\$ 748,916	\$ 675,896
Note payable	600,000	-
Total liabilities	<u>1,348,916</u>	<u>675,896</u>
Net assets:		
Unrestricted	692,481	1,443,009
Invested in capital assets, net of related debt	776,922	413,576
Restricted	4,018,323	4,452,330
Total liabilities and net assets	<u>\$ 6,836,642</u>	<u>\$ 6,984,811</u>
Total revenue and other support	\$ 1,006,020	\$ 1,656,148
Total expenses	(2,371,751)	(1,128,701)
Other changes in net assets	544,542	762,133
Change in net assets	<u>(821,189)</u>	<u>1,289,580</u>
Net assets, beginning of year	6,308,915	5,019,335
Net assets, end of year	<u>\$ 5,487,726</u>	<u>\$ 6,308,915</u>



**CLINTON MEMORIAL HOSPITAL**  
**d/b/a CMH REGIONAL HEALTH SYSTEM**  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

9. SUBSEQUENT EVENT

On February 20, 2004, the Hospital entered into a capital lease for equipment valued at approximately \$1.6 million. Monthly payments of \$30,744, including principal and interest, are due through February, 2009.

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

Board of Trustees  
Clinton Memorial Hospital

We have audited the financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System, a component unit of Clinton County, Ohio (the Hospital) as of and for the year ended December 31, 2003 and have issued our report thereon dated April 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

BLUE & CO., LLC  
April 29, 2004



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CLINTON MEMORIAL HOSPITAL**

**CLINTON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 23, 2004**