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# **CLINTON MEMORIAL HOSPITAL D/B/A CMH REGIONAL SYSTEM**

**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Clinton Memorial Hospital D/B/A CMH Regional System, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 8, 2007

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

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DECEMBER 31, 2006 AND 2005

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Clinton Memorial Hospital d/b/a CMH Regional System (the Hospital) as of December 31, 2006 and 2005, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2006 and 2005, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
CLINTON MEMORIAL HOSPITAL D/B/A CMH REGIONAL SYSTEM

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2007, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Blue & Co., LLC

September 4, 2007



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

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CMH Regional Health System (CMHRHS) operates Clinton Memorial Hospital (CMH), a short term acute care hospital with a sub-acute care skilled nursing unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The System also consists of six 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 2006, CMH Regional Health System served 4,873 inpatients and over 213,000 outpatients throughout the organization.

2006 was an incredibly busy year for the System. The System signed a contract with McKesson in late 2005 to begin an ambitious information technology project "Operation Integration". This project is the advent of the electronic medical record which will contribute to better patient safety through complete integrated care management. The first phase of Operation Integration went live on October 1, 2006. The first phase consisted of over 22 applications. Included among those applications were the core Hospital Information System, Series and the Electronic Medical Record System, HPF. Series, the core HIS, is used for all admissions, discharges, coding, charging and billing. Some of the other applications that went live were an Emergency Department System, Laboratory, Radiology, Material Management and Financial Systems.

The System also embarked on construction of a regional cancer center, The Foster J. Boyd M.D. Regional Cancer Center. This center provides comprehensive cancer care, including a state of the art linear accelerator, to Clinton and surrounding counties and opened February 2007.

Our discussion and analysis of CMH Regional Health System's financial performance provides an overview of the system's financial activities for the fiscal year ended December 31, 2006. The financial presentation includes the activities of Clinton Memorial Hospital as well as the CMH Foundation. Please read it in conjunction with the combined financial statements, which begin on page 3.

## **Financial Highlights for FY 2006**

- CMHRHS reported an operating gain of \$1,075,035.
- Net non-operating losses totaled \$936,621.
- Income from operations combined with net non-operating losses resulted in revenues and gains in excess of expenses of \$138,414.
- Total patient revenues increased \$1,896,336 or 2.2 percent; total operating revenues decreased \$441,076 or 14.7 percent.
- Total operating expenses increased \$5,668,274 or 67.6 percent.

## **Using This Annual Report**

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

# CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Balance Sheet and the Statement of Operations and Changes in Net Assets include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the organization's net assets and changes in them. Net assets – the difference between assets and liabilities is one way to measure the organization's financial health, or financial position. Over time, increases or decreases in the net assets are one indicator of whether the organization's financial health is improving or deteriorating.

## The Statement of Cash Flows

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

## Net Assets

CMH Regional Health System's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 3 and 4. The net assets increased in FY 2006 by \$280,257 or .4% percent over those reported in FY 2005 (see Table I).

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

	FY 2006	FY 2005	FY 2004
<b>Assets</b>			
Current assets	\$ 25,223,421	\$ 24,234,996	\$ 23,771,988
Capital assets, net	93,462,014	80,356,294	76,755,245
Assets whose use is limited	4,962,366	12,408,919	509,636
Other noncurrent assets	7,818,444	9,328,962	9,478,742
<b>Total assets</b>	<u>131,466,245</u>	<u>126,329,171</u>	<u>110,515,611</u>
<b>Liabilities</b>			
Long-term debt outstanding	45,927,283	45,791,872	34,875,070
Other current liabilities	17,883,514	13,162,108	12,326,302
<b>Total liabilities</b>	<u>63,810,797</u>	<u>58,953,980</u>	<u>47,201,372</u>
<b>Net Assets</b>			
Unrestricted	12,520,074	17,661,343	18,779,198
Invested in capital assets, net of related debt	45,168,893	33,253,158	40,385,206
Restricted	9,966,481	16,460,690	4,149,835
<b>Total net assets</b>	<u>\$ 67,655,448</u>	<u>\$ 67,375,191</u>	<u>\$ 63,314,239</u>

# CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Operating Results and Changes in Net Assets

In 2006, CMH Regional Health System's net assets increased by \$280,257 or .4 percent, as shown in Table 2. This increase is made up of very different components and represents a decrease over the net asset increase of \$4,060,952 or 6.4 percent reported for FY 2005.

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

	FY 2006	FY 2005	FY 2004
<b>Operating revenues</b>			
Net patient service revenues	\$ 89,567,065	\$ 87,670,729	\$ 78,911,368
Other operating revenues	2,559,080	3,000,156	1,648,924
Total operating revenues	<u>92,126,145</u>	<u>90,670,885</u>	<u>80,560,292</u>
<b>Operating expenses</b>			
Salaries and benefits	50,762,645	47,646,419	43,845,813
Supplies	13,013,616	12,719,297	12,128,050
Professional and purchased services	12,051,253	10,598,073	9,445,643
Depreciation and rent	7,704,751	6,905,314	6,269,512
Other operating expenses	7,518,845	7,513,733	7,112,632
Total operating expenses	<u>91,051,110</u>	<u>85,382,836</u>	<u>78,801,650</u>
Income from operations	1,075,035	5,288,049	1,758,642
Nonoperating (loss) gains, net	<u>(936,621)</u>	<u>(1,209,649)</u>	<u>(379,682)</u>
Revenues and gains in excess of expenses	138,414	4,078,400	1,378,960
Change in unrealized gains and (losses) on investments	<u>141,843</u>	<u>(17,448)</u>	<u>(75,541)</u>
Change in net assets	280,257	4,060,952	1,303,419
<b>Net assets, beginning of year</b>	<u>67,375,191</u>	<u>63,314,239</u>	<u>62,010,820</u>
<b>Net assets, end of year</b>	<u>\$ 67,655,448</u>	<u>\$ 67,375,191</u>	<u>\$ 63,314,239</u>

# CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Operating Gains

The first component of the overall change in the organization's net assets is its operating gain - the difference between net total revenues and the expenses incurred to perform those services. In FY 2006, CMH Regional Health System experienced an operating gain of \$1,075,035 following the previous year's operating gain of \$5,288,049. The primary contributions to this decline were:

- Flat growth rate of total revenues of \$1.89 million or 2.2% in FY 2006 compared to \$10.1 million or 11% in FY 2005, and
- A growth rate of operating expenses of \$5.6 million or 6.6 which is down slightly from \$6.5 million or 8.3% percent in FY 2005.

The slight improvement in revenue in FY 2006 can be attributed to a rate of growth in the following services:

	----- Revenues -----		
	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
Surgical	\$ 30,340,028	\$ 27,119,226	\$ 23,145,291
Imaging	\$ 29,371,678	\$ 27,812,089	\$ 23,212,676
Pharmacy	\$ 10,497,010	\$ 9,774,422	\$ 8,959,518
Cardiac Diagnostics	\$ 5,706,273	\$ 5,238,005	\$ 5,144,746
Sleep Lab	\$ 1,178,634	\$ 1,102,276	\$ 894,715

These five services represent more than the total growth experienced in patient revenues in FY 2006, the growth in these departments is offset by decline in revenue in other service areas. The addition of an orthopedic surgeon in late 2003, and two general surgeons and a vascular surgeon in 2004 power the growth in surgical services as well as imaging services. Pharmacy revenues continued to grow with the expansion of the Pyxis automated medication dispensing system, allowing improved charge capture.

Operating expenses increased by \$5.6 million or 6.6 percent in FY 2006 over FY 2005 with the following areas experiencing significant change:

	----- Operating Expenses -----		Percent
	<u>FY 2006</u>	<u>FY 2005</u>	Change
Salaries and wages	\$ 37,921,532	\$ 35,466,542	6.9%
Depreciation and rent	\$ 7,704,751	\$ 6,905,314	11.6%

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

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Salaries increased due to additional resource needs associated with Operation Integration. Depreciation and rent increased due to addition of property, plant and equipment.

## **Capital Assets and Debt**

During FY 2002, CMH Regional Health System issued \$35 million in variable interest rate Revenue Bonds through the County of Clinton. These funds were used to repay existing debt from two previous bond issues totaling \$28.2 million and finance the remaining costs of the patient tower. The remaining outlays for the renovations and emergency and laboratory departments' expansion are being paid from existing hospital reserves. A total of \$508,577 is being held in a trust account at the end of FY 2006 for the third debt payment of \$1,000,000 on the bonds due in June of 2007. In December of 2005, the organization issued additional bonds in the amount of \$12.2 million to pay for information system implementation and the cancer center project.

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

Total cash holdings decreased by \$1,441,752 during FY 2006, much of which is attributable to an increase in accounts receivable due to the October 1 implementation of a new accounts receivable system.

## **Budget Comparison**

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

Table 3 summarizes the comparison of actual operational results to budget for FY 2006 (CMH only).

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

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

	<b>Actual FY 2006</b>	<b>Budget FY 2006</b>
<b>Operating revenues</b>		
Gross patient service revenues	140,954,643	\$ 131,119,371
Less: Deductions from revenues	51,387,578	43,311,733
Net patient revenues	89,567,065	87,807,638
Other operating revenues	1,049,231	1,333,134
<b>Total operating revenues</b>	90,616,296	89,140,772
<b>Operating expenses</b>		
Salaries and benefits	50,762,645	47,336,114
Supplies	13,013,616	13,334,173
Professional and purchased services	12,051,253	10,003,473
Depreciation and rent	7,217,944	6,553,758
Occupancy	3,171,440	3,485,479
Insurance	1,038,728	1,039,013
Other operating expenses	2,918,494	2,661,164
<b>Total operating expenses</b>	90,174,120	84,413,174
<b>Operating income</b>	442,176	4,727,598
<b>Non-operating revenues and expenses</b>	(433,384)	(596,041)
<b>Revenues and gains in excess of expenses</b>	\$ 8,792	\$ 4,131,557

### **Deductions From Revenues**

Net revenues are the result of gross patient revenues less deductions from revenues. Deductions from revenues consist of contractual adjustments (the difference between the amounts the organization charges for services and the payments actually received for those services from Medicare, Medicaid and other third party payers) bad debt expense and amounts written off as charity care for those unable to pay for services rendered. Contractual adjustments were in excess of budget by \$1,892,104 or 4.7%. This variance is due to a variety of factors including changing payer mix.

# CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **Benchmarking**

CMH Regional Health System regularly tracks industry benchmarks to determine efficiency and financial health of the organization and to determine compliance with required bond covenants. Financial ratios are also followed to determine compliance with required bond covenants. Table 5 represents the financial outcome indicator comparison for the industry, versus CMH for FY 2006 and FY 2005 (hospital only).

# CMH REGIONAL HEALTH SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table 5: Financial Outcome Indicators**

INDICATORS	<u>Industry</u> *	<u>Final</u> <u>2004</u>	<u>Final</u> <u>2005</u>	<u>Final</u> <u>2006</u>
<b>OPERATING EFFICIENCY</b>				
Cost per Discharge (Case Mix & Wage Index adj)	\$5,652.60	\$5,636.59	\$5,427.68	\$5,777.56
Cost per Visit (Wage Index adj)	\$279.56	\$270.67	\$282.22	\$318.24
FTEs per Adjusted Daily Census (CMI adjusted)	N/A	4.83	4.7	4.55
Patient Revenue Growth	N/A	8.6%	11.2%	6.3%
Patient Length of Stay (CMI adjusted)	3.17	3.28%	3.217	3.285
<b>PROFITABILITY RATIOS:</b>				
Operating Margin	N/A	2.13%	5.90%	0.49%
<b>LIQUIDITY RATIOS:</b>				
Days Revenue in Accounts Receivable	54.2	44.0	37.8	50.9
Days Cash on Hand	109.7	41.6	68.2	47.2
Days Cash on Hand (All Sources)		65.6	78.0	62.9
<b>BOND COVENANT RATIOS</b>				
Current Ratio**	1.50	1.93	1.77	1.21
Debt Service Coverage**	2.00	3.66	4.22	2.53
Indebtedness to Fund Balance**	95.0%	78.8%	92.0%	82.6%

\* S&P A Rated (Source: 2005 Center for Healthcare Industry Performance Studies)

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



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

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

### **Grant Activity**

We received the following grants in 2006 from the Ohio Department of Health:

<u>Program</u>	<u>Grant Number</u>	<u>Period</u>	<u>Amount</u>
Safety Net Dental Care	14-3-001-1-EH-06	1/1/06 - 12/31/06	\$ 30,000
Family Planning Title X GRF	14-3-001-1-XX-05	3/1/05 - 2/28/06	49,452
Child and Family Health Services	14-3-001-1-MC-07	7/1/06 - 6/30/07	54,840
Family Planning Title X GRF	14-3-001-1-XX-06	3/1/06 - 2/28/07	48,237
Child and Family Health Services	14-3-001-1-MC-06	7/1/05 - 6/30/06	57,278

### **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, 2006 AND 2005**

**ASSETS**

	2006	2005
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,094,934	\$ 9,128,617
Short-term investments	3,291,749	1,480,717
Patient accounts receivable, less allowance for doubtful accounts of \$2,664,000 in 2006 and \$2,429,000 in 2005	12,481,020	9,086,440
Notes and other receivables	1,312,933	1,721,383
Inventories	1,281,131	1,367,925
Estimated third-party settlements	89,268	-
Prepaid expenses and other	1,672,386	1,449,914
Total current assets	25,223,421	24,234,996
<b>Assets whose use is limited - held by trustee</b>	4,962,366	12,408,919
<b>Property, buildings and equipment, net</b>	93,462,014	80,356,294
<b>Other assets</b>		
Investments	6,083,657	6,280,251
Notes and other receivables	1,734,787	3,048,711
Total other assets	7,818,444	9,328,962
Total assets	\$ 131,466,245	\$ 126,329,171

See accompanying notes to combined financial statements.

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

COMBINED BALANCE SHEETS  
DECEMBER 31, 2006 AND 2005

**LIABILITIES AND NET ASSETS**

	2006	2005
<b>Current liabilities</b>		
Trade accounts payable	\$ 8,402,209	\$ 4,449,526
Accrued salaries and wages	848,769	700,686
Accrued vacation	2,623,123	2,444,437
Other accrued expenses	3,643,575	4,155,153
Estimated third-party settlements	-	101,042
Current portion of long-term debt	2,365,838	1,311,264
Total current liabilities	17,883,514	13,162,108
<b>Long-term debt, less current portion</b>	45,927,283	45,791,872
Total liabilities	63,810,797	58,953,980
<b>Net assets</b>		
Unrestricted	12,520,074	17,661,343
Invested in capital assets, net of related debt	45,168,893	33,253,158
Restricted	9,966,481	16,460,690
	67,655,448	67,375,191
Total liabilities and net assets	\$ 131,466,245	\$ 126,329,171

*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, 2006 AND 2005**

	2006	2005
<b>Revenues</b>		
Net patient service revenue	\$ 89,567,065	\$ 87,670,729
Other operating revenue	2,559,080	3,000,156
Total revenues	92,126,145	90,670,885
<b>Operating expenses</b>		
Salaries and wages	37,921,532	35,466,542
Employee benefits	12,841,113	12,179,877
Supplies	13,013,616	12,719,297
Purchased services	9,623,633	8,518,954
Depreciation and rent	7,704,751	6,905,314
Occupancy	3,171,440	2,604,822
Repairs and maintenance	644,495	850,997
Physician fees	2,427,620	2,079,119
Insurance	1,038,728	847,510
Other	2,664,182	3,210,404
Total operating expenses	91,051,110	85,382,836
Income from operations	1,075,035	5,288,049
Nonoperating loss, net	(936,621)	(1,209,649)
Revenue and gains in excess of expenses	138,414	4,078,400
Change in unrealized gains and losses on investments	141,843	(17,448)
Change in net assets	280,257	4,060,952
<b>Net assets, beginning of year</b>	67,375,191	63,314,239
<b>Net assets, end of year</b>	\$ 67,655,448	\$ 67,375,191

*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, 2006 and 2005**

	2006	2005
<b>Operating activities</b>		
Cash received for patients and third party payors	\$ 85,982,175	\$ 88,404,593
Cash paid to employees for wages and benefits	(50,947,454)	(47,415,125)
Cash paid to vendors for goods and services	(29,761,430)	(31,467,024)
Other receipts, net	2,700,923	2,982,708
Net cash from operating activities	<u>7,974,214</u>	<u>12,505,152</u>
<b>Capital and related financing activities</b>		
Repayment of long-term debt	(1,310,015)	(1,466,903)
Issuance of long-term debt	-	12,200,000
Interest expense and other nonoperating gains (losses)	(1,794,383)	(1,455,274)
Acquisition of property and equipment	(17,315,750)	(9,633,664)
Net cash from capital and related financing activities	<u>(20,420,148)</u>	<u>(355,841)</u>
<b>Investing activities</b>		
Change in investments, net	8,424,046	(11,807,210)
Notes and other receivables	1,722,374	854,443
Interest income	857,762	245,625
Net cash from investing activities	<u>11,004,182</u>	<u>(10,707,142)</u>
Net change in cash and cash equivalents	(1,441,752)	1,442,169
<b>Cash and cash equivalents</b>		
Beginning of year	9,819,862	8,377,693
End of year	<u>\$ 8,378,110</u>	<u>\$ 9,819,862</u>
<b>Cash and cash equivalents include the following</b>		
Cash and cash equivalents	\$ 5,094,934	\$ 9,128,617
Investments and assets whose use is limited	3,283,176	691,245
Total cash and cash equivalents	<u>\$ 8,378,110</u>	<u>\$ 9,819,862</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 1,075,035	\$ 5,288,049
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	6,710,030	5,872,253
Change in unrealized gains and losses on investments	141,843	(17,448)
Loss on sale of assets	-	160,363
Bad debts	3,666,514	2,813,113
Changes in assets and liabilities:		
Patient accounts receivable	(7,061,094)	(2,380,000)
Inventories	86,794	(102,403)
Prepaid expenses and other assets	(222,472)	(347,995)
Trade accounts payable	3,952,683	687,175
Accrued salaries, wages and other	(184,809)	231,294
Estimated third-party settlements	(190,310)	300,751
Net cash from operating activities	<u>\$ 7,974,214</u>	<u>\$ 12,505,152</u>
<b>Supplemental disclosure of cash flow information</b>		
Assets acquired under capital lease	\$ 2,500,000	\$ -
Cash paid for interest	\$ 2,055,160	\$ 1,170,962

*See accompanying notes to combined financial statements.*

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

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**1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

Organization and Reporting Entity

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

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

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

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

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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Blended Component Unit

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Property, Buildings and Equipment

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

Assets Whose Use is Limited

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
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Grants and Contributions

The Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as other operating revenues.

Restricted Resources

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

Net Assets

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

	2006	2005
Debt service - held by trustee	\$ 4,962,366	\$ 12,408,919
Capital campaign	2,234,858	1,603,844
Funds to be held in perpetuity	2,769,257	2,447,927
	<u>\$ 9,966,481</u>	<u>\$ 16,460,690</u>

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



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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service.

Risk Management

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

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts. Revenue from the Medicare and Medicaid programs accounted for approximately 51% percent of the Hospital's net patient service revenue for the years ended December 31, 2006 and 2005. Payment for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, based on the discharge diagnosis per patient case. Certain other Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. The Hospital receives reimbursement for other Medicaid and Medicare outpatient services at amounts which approximate the cost of providing the services.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2004, 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

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

Charity Care

The Hospital treats patients regardless of their ability to pay. Amounts not collected under indigent care programs are considered to be charity care. Charity care measured at established rates approximated \$5,170,000 and \$4,658,000 in 2006 and 2005, respectively.

Professional Liability Insurance

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

Inventories

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

Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation. These changes had no effect on the change in net assets.

## 2. DEPOSITS AND INVESTMENTS

At December 31, 2006 and 2005, the carrying amount of the Hospital's bank deposits for all funds was \$6,015,247 and \$9,819,862 respectively, and the bank balance was \$7,751,842 and \$10,905,289, respectively. Of the bank balance, \$355,209 and \$500,000 at December 31, 2006 and 2005, respectively, is covered by Federal Depository Insurance. Of the remaining balance, \$0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name, \$7,341,363 and \$8,440,623, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and \$0 and \$1,964,666, 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

	December 31, 2006		December 31, 2005	
	Cost	Market	Cost	Market
Cash	\$ 8,378,110	\$ 8,378,110	\$ 9,819,862	\$ 9,819,862
U.S. obligations	10,057,934	10,073,338	19,513,742	19,478,642
Equities	819,719	981,258	-	-
Total	\$ 19,255,763	\$ 19,432,706	\$ 29,333,604	\$ 29,298,504

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

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

	Carrying Amount	Maturities	
		< 1 Year	1-5 Years
December 31, 2006:			
U.S. obligations	\$ 10,073,338	\$ 3,992,466	\$ 6,080,872

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

**Credit Risk** – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposits or savings or deposit accounts, including passbook accounts, in any eligible institutions mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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:

	12/31/2005	Additions	Retirements/ Transfers	12/31/2006
Land and land improvements	\$ 3,003,929	\$ 211,819	\$ (72,991)	\$ 3,142,757
Buildings and improvements	80,178,917	2,172,357	(634,424)	81,716,850
Equipment	38,201,950	14,534,152	(3,177,272)	49,558,830
Construction in progress	3,561,948	15,277,444	(12,002,181)	6,837,211
Total capital assets	<u>124,946,744</u>	<u>32,195,772</u>	<u>(15,886,868)</u>	<u>141,255,648</u>
Less accumulated depreciation				
Land improvements	1,057,681	128,122	(72,542)	1,113,261
Buildings and improvements	19,444,819	2,738,981	(318,492)	21,865,308
Equipment	24,087,950	3,842,927	(3,115,812)	24,815,065
Total accumulated depreciation	<u>44,590,450</u>	<u>6,710,030</u>	<u>(3,506,846)</u>	<u>47,793,634</u>
Capital assets, net	<u>\$ 80,356,294</u>	<u>\$ 25,485,742</u>	<u>\$(12,380,022)</u>	<u>\$ 93,462,014</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

In connection with the capital improvements the Hospital has capitalized interest of \$0 and \$118,073 for the years ended December 31, 2006 and 2005, respectively.

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

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**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>2006</u>	<u>2005</u>
Medicare	36%	36%
Medicaid	10%	8%
Other third-party payors	39%	39%
Self pay patients	15%	17%
	<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, 2006 and 2005:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (3.96% at December 31, 2006) with final maturity June 1, 2026.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2005, with varying rates (3.96% at December 31, 2006) with final maturity December 2035.
- County of Clinton, Ohio Series 2006A Note, interest rate of 5.015% due October 4, 2011.
- Note payable, interest only at varying rates with a single principal payment due July 1, 2008.

	12/31/2005	Additions	Payments	12/31/2006	Amount Due within 1 year
2002 bonds	\$ 33,195,000	\$ -	\$ 960,000	\$ 32,235,000	\$ 1,000,000
2005 bonds	12,200,000	-	-	12,200,000	575,000
2006 Notes	-	2,500,000	-	2,500,000	451,443
Capital leases	1,108,176	-	350,015	758,161	339,395
Note payable	599,960	-	-	599,960	-
	<u>\$ 47,103,136</u>	<u>\$ 2,500,000</u>	<u>\$ 1,310,015</u>	<u>\$ 48,293,121</u>	<u>\$ 2,365,838</u>

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

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

The Hospital uses derivative financial instruments principally to manage the risk of change in interest rates. During 2005, the Hospital entered into a cash flow hedge interest rate swap agreement with Fifth Third Bank. As a result of the swap, the Hospital locked in to an interest rate of 4.23% on \$12,200,000 of the Series 2005 Adjustable Rate Demand Hospital Facilities Revenue Improvement Bonds. The fair value of the interest rate swap at December 31, 2006 was a liability of \$413,609. This liability has been recorded in other accrued expenses with the related loss on this arrangement deferred as a component of unrestricted net assets. The agreement expires on December 1, 2015.

As of December 31, 2006, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the derivative's fair value.

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

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



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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

Year Ending December 31	Capital Lease Obligations	Principal Payments on Long-Term Debt	Interest Payments on Long-Term Debt
2007	\$ 368,929	\$ 2,026,443	\$ 1,845,915
2008	368,929	2,114,512	1,756,301
2009	62,737	2,213,760	1,662,783
2010	-	2,309,247	1,565,057
2011	-	3,011,008	1,462,862
2012-2016	-	10,610,000	5,960,257
2017-2021	-	13,140,000	3,488,810
2022-2026	-	9,885,000	1,017,425
2027-2031	-	2,225,000	-
	<u>800,595</u>	<u>\$ 47,534,970</u>	<u>\$ 18,759,410</u>
Less Amount representing interest on obligation under capital lease	<u>(42,444)</u>		
	<u>\$ 758,151</u>		

The net carrying value of assets recorded under capital lease was \$1,217,799 for both December 31, 2006 and 2005.

## 6. FUTURE MINIMUM RENTAL EXPENSE AND INCOME

Rent expense amounted to approximately \$582,000 and \$556,000 in 2006 and 2005, respectively. The leases expire through 2047.

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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2007	73,921
2008	42,111
2009	12,000
2010	12,000
2011	12,000
Thereafter	<u>430,000</u>
Total	<u>\$ 582,032</u>

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employees are 13.7% and 9.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

2006	\$	5,095,750
2005	\$	4,730,647
2004	\$	4,448,100

OPERS also provides post-retirement health care 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 OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2006 and 2005 employer contribution rates of 13.7% used to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2005 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

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The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804.

Hospital contributions made to fund post-employment benefits approximated \$1,674,000 and \$1,360,000 for 2006 and 2005, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$31.3 billion and \$20.2 billion, respectively.

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

## **8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

**CLINTON MEMORIAL HOSPITAL  
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**NOTES TO COMBINED FINANCIAL STATEMENTS  
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Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

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

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

REPORT OF INDEPENDENT AUDITORS  
ON OTHER FINANCIAL INFORMATION

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

Our audit for the year ended December 31, 2006, was conducted for the purpose of forming an opinion on the basic combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional System taken as a whole. The following 2006 financial information on pages 24-26 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Blue & Co., LLC*

September 4, 2007

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

**COMBINING BALANCE SHEET  
December 31, 2006**

**ASSETS**

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
<b>Current assets</b>				
Cash and cash equivalents	\$ 2,807,954	\$ 2,286,980	\$ -	\$ 5,094,934
Short-term investments	1,906,026	1,385,723	-	3,291,749
Patient accounts receivable, less allowance for doubtful accounts of \$2,664,000 in 2006	12,481,020	-	-	12,481,020
Notes and other receivables	1,545,719	-	(232,786)	1,312,933
Estimated third party settlements	89,268	-	-	89,268
Inventories	1,281,131	-	-	1,281,131
Prepaid expenses and other	1,069,177	603,209	-	1,672,386
<b>Total current assets</b>	<b>21,180,295</b>	<b>4,275,912</b>	<b>(232,786)</b>	<b>25,223,421</b>
<b>Assets whose use is limited - held by trustee</b>	<b>4,962,366</b>	<b>-</b>	<b>-</b>	<b>4,962,366</b>
<b>Property, buildings and equipment, net</b>	<b>92,454,313</b>	<b>1,007,701</b>	<b>-</b>	<b>93,462,014</b>
<b>Other assets</b>				
Investments	6,083,657	-	-	6,083,657
Notes and other receivables	859,938	874,849	-	1,734,787
<b>Total other assets</b>	<b>6,943,595</b>	<b>874,849</b>	<b>-</b>	<b>7,818,444</b>
<b>Total assets</b>	<b>\$ 125,540,569</b>	<b>\$ 6,158,462</b>	<b>\$ (232,786)</b>	<b>\$ 131,466,245</b>

See report of independent auditors on other financial information on page 23.

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

COMBINING BALANCE SHEET  
December 31, 2006

**LIABILITIES AND NET ASSETS**

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
<b>Current liabilities</b>				
Trade accounts payable	\$ 8,398,029	\$ 236,966	\$ (232,786)	\$ 8,402,209
Accrued salaries and wages	848,769	-	-	848,769
Accrued vacation	2,623,123	-	-	2,623,123
Other accrued expenses	3,260,562	383,013	-	3,643,575
Current portion of long-term debt	2,365,838	-	-	2,365,838
	<hr/>			
Total current liabilities	17,496,321	619,979	(232,786)	17,883,514
<b>Long-term debt, less current portion</b>	45,327,323	599,960	-	45,927,283
	<hr/>			
Total liabilities	62,823,644	1,219,939	(232,786)	63,810,797
	 <hr/>			
<b>Net assets</b>				
Unrestricted	12,993,407	(473,333)	-	12,520,074
Invested in capital assets, net of related debt	44,761,152	407,741	-	45,168,893
Restricted	4,962,366	5,004,115	-	9,966,481
	62,716,925	4,938,523	-	67,655,448
	<hr/>			
Total liabilities and net assets	\$ 125,540,569	\$ 6,158,462	\$ (232,786)	\$ 131,466,245
	<hr/>			

See report of independent auditors on other financial information on page 23.



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

**COMBINING STATEMENT OF OPERATIONS  
AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2006**

	Clinton Memorial Hospital	CMH Foundation	Eliminations	Combined
<b>Revenues</b>				
Net patient service revenue	\$ 89,567,065	\$ -	\$ -	\$ 89,567,065
Other operating revenue	1,049,231	756,004	753,845	2,559,080
<b>Total revenues</b>	<b>90,616,296</b>	<b>756,004</b>	<b>753,845</b>	<b>92,126,145</b>
<b>Operating expenses</b>				
Salaries and wages	37,921,532	-	-	37,921,532
Employee benefits	12,841,113	-	-	12,841,113
Supplies	13,013,616	-	-	13,013,616
Purchased services	9,623,633	-	-	9,623,633
Depreciation and rent	7,217,944	486,807	-	7,704,751
Occupancy	3,171,440	-	-	3,171,440
Repairs and maintenance	644,495	-	-	644,495
Physician fees	2,427,620	-	-	2,427,620
Insurance	1,038,728	-	-	1,038,728
Other	2,273,999	390,183	-	2,664,182
<b>Total operating expenses</b>	<b>90,174,120</b>	<b>876,990</b>	<b>-</b>	<b>91,051,110</b>
Income from operations	442,176	(120,986)	753,845	1,075,035
Nonoperating gains (losses), net	(433,384)	250,608	(753,845)	(936,621)
Revenue and gains in excess of expenses	8,792	129,622	-	138,414
<b>Transfers to affiliates</b>	<b>(325,000)</b>	<b>325,000</b>	<b>-</b>	<b>-</b>
<b>Change in unrealized gains and losses on investments</b>	<b>69,926</b>	<b>71,917</b>	<b>-</b>	<b>141,843</b>
<b>Change in net assets</b>	<b>(246,282)</b>	<b>526,539</b>	<b>-</b>	<b>280,257</b>
<b>Net assets, beginning of year</b>	<b>62,963,207</b>	<b>4,411,984</b>	<b>-</b>	<b>67,375,191</b>
<b>Net assets, end of year</b>	<b>\$ 62,716,925</b>	<b>\$ 4,938,523</b>	<b>\$ -</b>	<b>\$ 67,655,448</b>

See report of independent auditors on other financial information on page 23.



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

Board of Trustees  
 Clinton Memorial Hospital  
 Wilmington, Ohio

We have audited the combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System, a business-type activity of Clinton County, Ohio (the Hospital) as of and for the year ended December 31, 2006, and have issued our report thereon dated September 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting (2006-1).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated **September 4, 2007**.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on it. This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be an should not be used by anyone other than those specified parties.

*Blue & Co., LLC*

**September 4, 2007**

**CLINTON MEMORIAL HOSPITAL  
d/b/a CMH REGIONAL SYSTEM  
Schedule of Findings and Responses  
December 31, 2006**

**2006-1: Audit Adjustments**

During our testing of the accounts receivable allowances it came to our attention that the allowance percentages utilized in the Hospital's calculation had not been updated to reflect current activity. An adjustment was necessary to increase net income by approximately \$434,000 as a result of applying the latest percentages to the accounts receivable balances. We recommend that the Hospital periodically update the percentages to ensure receivables are valued at net realizable value.

An adjustment to estimated third-party settlements was necessary to decrease net income by approximately \$759,000. The most significant portion of the adjustment was due to the Hospital closing certain appeals subsequent to year end. The Hospital performed a calculation utilizing information obtained from the close down of the appeal and the resulting adjustment was approximately \$557,000 of the total adjustment. In addition, the 2004 cost report was final settled in 2006 and an adjustment was made to eliminate the estimated settlement.

**Management's Response:**

The contractual and estimated third-party settlement model will be reviewed and revised periodically as part of the contractual allowance and bad debt allowance monitoring.



**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  
OCTOBER 18, 2007**