

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

FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001



**Auditor of State
Betty Montgomery**

Board of Trustees
Clinton Memorial Hospital
610 West Main Street
PO Box 600
Wilmington, Ohio 45177-0600

We have reviewed the Independent Auditor's Report of the Clinton Memorial Hospital, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2002 to December 31, 2002. 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

July 14, 2003

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CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of December 31, 2002, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital as of December 31, 2001 were audited by other auditors whose report dated May 3, 2002, expressed an unqualified opinion.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2002, and the results of its operations, changes in fund balance and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 30, 2003, 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 30, 2003

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
BALANCE SHEETS
DECEMBER 31, 2002 and 2001

ASSETS

	2002	2001
Current assets:		
Cash and cash equivalents	\$ 20,833,057	\$ 17,373,009
Short-term investments	1,838,371	2,091,096
Patient accounts receivable, less allowance for doubtful accounts of \$2,802,000 in 2002 and \$2,573,000 in 2001	8,369,469	9,132,291
Notes and other receivables	1,034,391	1,054,412
Inventories	1,065,455	964,671
Estimated third-party payor settlements	596,093	-
Prepaid expenses and other	803,508	597,975
Total current assets	34,540,344	31,213,454
Assets whose use is limited - held by trustee	2,155,068	-
Property, buildings and equipment, net	61,032,405	45,364,980
Other assets:		
Investments	4,792,890	5,915,613
Notes and other receivables	1,349,327	947,205
Total other assets	6,142,217	6,862,818
Total assets	\$ 103,870,034	\$ 83,441,252

LIABILITIES AND FUND BALANCE

	2002	2001
Current liabilities:		
Trade accounts payable	\$ 5,833,660	\$ 5,519,413
Accrued salaries and wages	1,021,443	865,376
Accrued vacation	2,575,416	2,371,815
Other accrued expenses	2,947,025	2,522,252
Estimated third-party payor settlements	-	81,029
Current portion of long-term debt	342,260	1,633,532
Total current liabilities	12,719,804	12,993,417
Long-term debt, less current portion	35,599,097	17,846,356
Total liabilities	48,318,901	30,839,773
Fund balance	55,551,133	52,601,479
Total liabilities and fund balance	\$ 103,870,034	\$ 83,441,252

See accompanying notes to financial statements.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Revenues:		
Net patient service revenue	\$ 72,278,573	\$ 68,462,037
Other operating revenue	<u>1,419,257</u>	<u>1,345,696</u>
Total revenues	<u>73,697,830</u>	<u>69,807,733</u>
Operating expenses:		
Salaries and wages	29,806,469	26,763,289
Employee benefits	9,218,979	7,413,130
Supplies	10,202,069	9,654,257
Purchased services	7,066,970	6,243,715
Depreciation and rent	4,261,645	3,998,753
Provision for bad debts	2,588,724	2,963,339
Occupancy	2,646,948	2,444,185
Physician fees	3,016,782	2,504,831
Insurance	633,567	453,366
Interest	300,346	302,308
Other	<u>2,299,287</u>	<u>1,907,505</u>
Total operating expenses	<u>72,041,786</u>	<u>64,648,678</u>
Income from operations	1,656,044	5,159,055
Nonoperating gains, net	<u>1,366,626</u>	<u>454,188</u>
Revenue and gains in excess of expenses	3,022,670	5,613,243
Change in unrealized gains and losses on investments	(73,016)	212,575
Fund balance, beginning of year	<u>52,601,479</u>	<u>46,775,661</u>
Fund balance, end of year	<u>\$ 55,551,133</u>	<u>\$ 52,601,479</u>

See accompanying notes to financial statements.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Income from operations	\$ 1,656,044	\$ 5,159,055
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation	3,903,250	3,687,181
Loss on disposal of assets	370,243	15,546
Interest expense	300,346	302,308
Change in unrealized gains and losses on investments	(73,016)	212,575
Provision for bad debts	2,588,724	2,963,339
Changes in operating assets and liabilities:		
Patients accounts receivable	(1,825,902)	(2,702,177)
Notes and other receivables	(382,101)	(496,035)
Inventories	(100,784)	(208,874)
Prepaid expenses and other assets	(205,533)	(115,562)
Trade accounts payable	314,247	1,653,680
Accrued salaries, wages and other accrued expenses	784,441	1,648,930
Estimated third-party payor settlements	(677,122)	(607,539)
Net cash from operating activities	6,652,837	11,512,427
Cash flows from noncapital financing activities:		
Donations (made) received	705,529	(432,301)
Rental loss	(8,685)	(20,593)
Net cash from noncapital financing activities	696,844	(452,894)
Cash flows from capital and related financing activities:		
Issuance of debt	42,500,000	11,200,000
Repayment of debt	(26,038,532)	(1,310,845)
Interest expense	(300,346)	(302,308)
Acquisition of property, buildings and equipment	(19,940,918)	(13,929,165)
Net cash from financing activities	(3,779,796)	(4,342,318)
Cash flows from investing activities:		
Investments	1,375,448	711,778
Change in assets whose is limited - held by trustee	(2,155,068)	-
Interest income	669,783	907,082
Net cash from investing activities	(109,837)	1,618,860
Net change in cash and cash equivalents	3,460,048	8,336,075
Cash and cash equivalents, beginning of year	17,373,009	9,036,934
Cash and cash equivalents, end of year	\$ 20,833,057	\$ 17,373,009

See accompanying notes to financial statements.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

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'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.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts. Revenue from the Medicare and Medicaid programs accounted for approximately 50 percent and 48 percent of the Hospital's net patient service revenue for the years ended December 31, 2002 and 2001, respectively. Payment for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, based on the discharge diagnosis per patient case. Certain other Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. The Hospital receives reimbursement for other Medicaid and Medicare outpatient services at amounts which approximate the cost of providing the services.

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. Additionally, the Hospital considers amounts not collected under indigent care programs to be charity care. Charity care measured at established rates approximated \$3,006,000 and \$2,987,000 in 2002 and 2001, respectively. These charges are not included in net patient service revenue.

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.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Inventories

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

2. DEPOSITS AND INVESTMENTS

At December 31, 2002 and 2001, the carrying amount of the Hospital's bank deposits for all funds was \$3,995,827 and \$3,739,002, respectively, and the bank balance was \$4,068,450 and \$3,776,576, respectively. Of the bank balance, \$300,000 and \$200,000, respectively is covered by Federal Depository Insurance. Of the remaining balance, \$0 and \$281,831, respectively, was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name, \$2,864,570 and \$3,294,745, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and \$903,880 and \$0, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

2. DEPOSITS AND INVESTMENTS (continued)

	December 31, 2002		December 31, 2001	
	Cost	Market	Cost	Market
Cash	\$ 3,995,827	\$ 3,995,827	\$ 3,739,002	\$ 3,739,002
Other short-term investments	5,134,119	5,134,119	6,045,963	6,045,963
U.S. Treasury	8,770,882	8,807,348	6,591,422	6,684,219
Corporate bonds	1,980,000	1,980,000	-	-
U.S. Government/Agencies	9,534,616	9,702,092	8,726,372	8,910,534
Total	<u>\$ 29,415,444</u>	<u>\$ 29,619,386</u>	<u>\$ 25,102,759</u>	<u>\$ 25,379,718</u>

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

3. PROPERTY, BUILDINGS AND EQUIPMENT

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

	2002	2001
Land and land improvements	\$ 2,413,234	\$ 2,342,149
Buildings and building improvements	33,576,698	30,060,203
Equipment	25,143,628	24,002,453
Construction in progress	30,318,977	16,067,814
Total	\$ 91,452,537	\$ 72,472,619
Less accumulated depreciation	<u>(30,420,132)</u>	<u>(27,107,639)</u>
Property, buildings and equipment, net	<u>\$ 61,032,405</u>	<u>\$ 45,364,980</u>

The Hospital has entered into various agreements to purchase capital items and for capital improvements. As of December 31, 2002, these commitments totaled approximately \$7 million.

In connection with the capital improvements the hospital has capitalized interest of approximately \$434,000 and \$212,000 for the year ended December 31, 2002 and 2001, respectively.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

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:

	2002	2001
Medicare	35%	45%
Medicaid	9%	6%
Other third-party payors	36%	34%
Self pay patients	20%	15%
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations 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.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

5. LONG-TERM DEBT AND LEASES

Long-term debt consisted of the following:

	December 31	
	2002	2001
Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvements Bunds - Series 2002 with varying rates (1.5% at December 31, 2002) with final maturity June 1, 2026	\$ 35,000,000	\$ -
Clinton County, Ohio, Variable Rate Demand Hospital Improvements Revenue Bonds: Series 1992, refunded June 2002	-	2,700,000
Clinton County, Ohio, Variable Rate Demand Hospital Revenue Bonds: Series 1998, refunded June 2002	-	15,515,000
Installment note, 8.0%, maturing in December 2003, with monthly payments of \$2,427, including interest	27,895	53,653
Capital lease obligations	913,462	1,211,235
Total	35,941,357	19,479,888
Less current portion	(342,260)	(1,633,532)
	<u>\$ 35,599,097</u>	<u>\$17,846,356</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 FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

5. LONG-TERM DEBT AND LEASES (continued)

Scheduled payments on a 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
2003	\$ 356,137	\$ 27,895	\$ 524,153
2004	356,107	885,000	510,391
2005	269,487	920,000	496,052
2006	-	960,000	481,105
2007	-	1,000,000	465,551
2008-2012	-	5,640,000	2,071,393
2013-2017	-	6,890,000	1,575,898
2018-2022	-	8,415,000	970,444
2023-2027	-	10,290,000	250,920
	<u>981,731</u>	<u>\$35,027,895</u>	<u>\$7,345,907</u>
Less Amount representing interest on obligation under capital lease	<u>(68,269)</u>		
	<u>\$ 913,462</u>		

The net carrying value of assets recorded under capital lease was \$698,209 and \$1,045,772 at December 31, 2002 and 2001, respectively.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

6. FUTURE MINIMUM RENTAL EXPENSE AND INCOME

Rent expense amounted to approximately \$315,000 and \$289,000 in 2002 and 2001, respectively. One of the leases, which expires in 2003, provides the Hospital with the option to purchase the building. The remaining leases expire through 2047.

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

2003	\$	318,921
2004		276,221
2005		187,210
2006		60,553
2007		62,010
Thereafter		<u>494,834</u>
Total	\$	<u><u>1,399,749</u></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 \$79,924 and are due in 2003.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

7. PENSION PLAN

All Hospital employees, with the exception of certain students, are required to be a member of the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system.

A member may retire at any age with thirty years of service, at age sixty with a minimum of five years of credited service, or at age fifty-five with a minimum of twenty-five years of service. Those individuals retiring with less than thirty years of service or at less than age sixty-five receive reduced retirement benefits. Benefits fully vest upon reaching five years of service and are established by state statute.

Eligible members are entitled to a retirement benefit, payable for life, equal to 2.1% of their final average salary for each year of credited service up to thirty years, and 2.5% of their final average salary for each year of service excess of thirty years. Final average salary is the employee's average salary over the highest three years of earnings.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees contributed 8.5% of their annual compensation for 2002, 2001, and 2000. The Hospital's contribution rate for 2002 and 2001 was 13.55% of covered payroll; the contribution rate for 2000 was 10.84% of covered payroll. The portion used to fund pension obligations was 9.25% and 6.54% for 2001 and 2000, respectively. The portion used to fund the pension obligation for 2002 was unavailable as of the date of this report. The difference between the employer rate and the portion used to fund pension obligations is the amount used to fund the health care program for retirees. Ohio PERS determines their actuarial liability based on the entry age normal method of funding.

Plan information is not maintained for individual local government units, thus the Hospital is unable to determine its share of the unfunded accrued liability.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

7. PENSION PLAN (continued)

Information pertaining to Hospital and employee contributions (as required by state statute) to the plan is detailed below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Total Hospital payroll	<u>\$ 29,418,000</u>	<u>\$ 26,432,000</u>	<u>\$ 23,972,000</u>
Total Hospital covered payroll	<u>\$ 29,120,000</u>	<u>\$ 26,135,000</u>	<u>\$ 23,752,000</u>
Total Hospital contributions	\$ 3,946,000	\$ 3,541,000	\$ 2,564,000
Total employee contributions	<u>2,475,000</u>	<u>2,221,000</u>	<u>2,019,000</u>
Total contributions	<u>\$ 6,421,000</u>	<u>\$ 5,762,000</u>	<u>\$ 4,583,000</u>

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, it's intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Systems and among employers.

The measure is independent of the actuarial funding method used to determine contributions to the retirement system. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit at December 31, 2000 (the most recent actuarial valuation) for the System as a whole was approximately \$28.3 billion.

The System's net assets available for benefits on that date (valued at market) was approximately \$28.8 billion, leaving an excess pension benefit obligation of \$0.5 billion at December 31, 2000. The total pension benefit obligation does not include any obligation for health care coverage.

Information, in addition to the above, concerning the System's accumulation of sufficient assets to pay benefits when due is presented in the System's Comprehensive Annual Financial Report for the year ended December 31, 2001.

CLINTON MEMORIAL HOSPITAL
d/b/a CMH REGIONAL HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 and 2001

8. POSTEMPLOYMENT RETIREMENT BENEFITS

PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Hospital's actual contribution for 2002 and 2001, which was used to fund postretirement health care benefits was approximately \$276,000 and \$248,000, respectively, which is included in the Hospital's PERS contribution of \$6,421,000 and \$5,762,000, respectively.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions include a rate of return on investments of 7.75 percent; active employee payroll increases of 4.75 percent compounded annually and additional pay increases above the 4.75 percent base increase were assumed to range from 0.54 to 2.62 percent; and health care premium increases of 4.75 percent annually.

As of December 31, 2001, (the most recent information available), PERS had \$11.6 billion in net assets available for payment of postemployment benefits. The actuarial accrued liability for postemployment benefits and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively. The number of active contributing employees was 411,076.

9. RELATED PARTY TRANSACTION

During the year ended December 31, 2001 the Hospital made a contribution of \$500,000 to the Clinton Memorial Foundation, a related entity. During the year ended December 31, 2002 the Hospital received a contribution from the Foundation of approximately \$675,000.

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 (the Hospital) as of and for the year ended December 31, 2002, and have issued our report thereon dated April 30, 2003. 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management and the Board of Trustees of the Hospital in a separate letter dated April 30, 2003.

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 30, 2003



**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
AUGUST 5, 2003**