

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

FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND DECEMBER 31, 2009



Dave Yost • Auditor of State

Board of Trustees
Clinton Memorial Hospital d/b/a CMH Regional Health System
610 West Main Street
Wilmington, Ohio 45177

We have reviewed the *Report of Independent Auditors* of the Clinton Memorial Hospital d/b/a CMH Regional Health System, Clinton County, prepared by Blue & Co., LLC, for the audit period January 1, 2010 through November 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 2, 2011

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of November 30, 2010 and December 31, 2009, and the related statements of operations and changes in net assets and cash flows for the eleven months ending November 30, 2010 and for the twelve months ending December 31, 2009. 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 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Clinton County, Ohio that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Clinton County, Ohio, and the changes in financial position and cash flows for the eleven months ending November 30, 2010 and for the twelve months ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of November 30, 2010 and December 31, 2009, and the results of its operations, changes in net assets and cash flows for the eleven months ending November 30, 2010 and for the twelve months ending December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 4, 2011, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages i through 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.

As discussed in Note 2 of the financial statements, the Hospital adopted new accounting guidance related to its interest rate swap agreement and also had a change in reporting entity during 2010. The Hospital adopted Governmental Accounting Standard Board's Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. In addition, the Clinton Memorial Hospital Foundation, Inc., whose financial statements were previously combined with the Hospital, amended its bylaws such that it no longer should be combined with the Hospital. Accordingly, the 2009 Hospital's financial statements have been restated to include the effects of adopting the new guidance and the change in reporting entity.

As discussed in Note 12 to the financial statements, the Hospital sold its primary assets, and paid off its long-term debt in December 2010. The Hospital continues to wind down the activities related to its former operations in 2011.

Bene G., LLC

May 4, 2011

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

CMH Regional Health System (the System) operates Clinton Memorial Hospital (the Hospital), a short term acute care hospital with an inpatient rehabilitation unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The System also consists of four physician practices, occupational medicine services, home health services, community dental services, community health services, the Foster J. Boyd M.D. Regional Cancer Center and a family medicine resident training program.

The Hospital experienced a continuing decline in financial position during fiscal year 2009, while coping with the downturn in the local economy due to the closure of the largest area employer and the loss of over 7,000 area jobs.

Sale of the System's Assets

On December 16, 2009, the System's Board of Trustees recommended to the Clinton County Commissioners to enter a process to competitively bid the sale of the System's assets. On January 13, 2010, the Clinton County Commissioners accepted the System's Board recommendation to sell the System's assets and initiated the competitive bidding process. On March 31, 2010, the System's Board of Trustees recommended a preference to accept the bid submitted by RegionalCare Hospital Partners, LLC (RCHP). On May 18, 2010, the Clinton County Commissioners determined RCHP to be the highest responsible bidder. On June 10, 2010, the Clinton County Commissioners approved the terms of the Letter of Intent with RCHP. On June 18, 2010, the Clinton County Commissioners and the System's Board of Trustees formally entered into a Letter of Intent to sell the System's assets to RCHP, subject to the due diligence process and final negotiated terms of the Asset Purchase Agreement. Upon completion of the due diligence process, the Clinton County Commissioners and the System's Board of Trustees formally approved the Asset Purchase Agreement with RCHP on November 17, 2010. The official closing of the sale of the System's assets to RCHP took place on November 30, 2010 with an effective date being December 1, 2010.

During November, 2010, several significant transactions were taken in preparation of the sale on November 30, 2010. As a result, our discussion and analysis of the System's financial performance provides an analysis of the November activities and the resulting impact to the financial position of the System.

Our discussion and analysis of the System's financial performance provides an overview of the System's financial activities for the eleven months ended November 30, 2010, and the years ended December 31, 2009, and December 31, 2008.

Financial Highlights for FY 2010

- The System reported a loss from operations approximating \$7.4 million.
- Non-operating losses totaled \$1.1 million.
- The System reported a total decrease in its net assets of \$8.6 million.

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

Using This Annual Report

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

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

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

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and changes in cash resulting from operations, investing, and capital and related financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Net Assets

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 3 and 4. The net assets decreased in FY 2010 by approximately \$8.6 million or 15.1% over those reported in FY 2009 (see Table I).

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

Table 1: Assets, Liabilities, and Net Assets

	<u>11/30/2011</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Assets			
Current assets	\$ 22,844,660	\$ 22,870,399	\$ 22,107,996
Capital assets, net	67,862,154	73,871,102	80,552,564
Assets whose use is limited	1,093,509	564,111	741,466
Other noncurrent assets	1,761,718	6,629,195	6,310,607
Deferred outflows	1,248,200	957,522	1,243,159
Total assets and deferred outflows	<u>94,810,241</u>	<u>104,892,329</u>	<u>110,955,792</u>
Liabilities			
Long-term liabilities	32,550,000	36,271,037	39,580,284
Other current liabilities	16,710,140	14,483,694	14,731,104
Total liabilities	<u>49,260,140</u>	<u>50,754,731</u>	<u>54,311,388</u>
Net assets			
Unrestricted	12,724,438	19,154,047	18,022,049
Invested in capital assets, net of related debt	31,732,154	34,419,440	37,880,889
Restricted	1,093,509	564,111	741,466
Total net assets	<u>\$ 45,550,101</u>	<u>\$ 54,137,598</u>	<u>\$ 56,644,404</u>

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

Operating Results and Changes in Net Assets

Table 2: Operating Results and Changes in Net Assets

	For the eleven months ending November 30, 2010	FY 2009	FY 2008
Revenues			
Net patient service revenues	\$ 87,725,805	\$ 99,578,726	\$ 96,678,786
Other operating revenues	1,274,298	963,144	1,173,850
Total operating revenues	<u>89,000,103</u>	<u>100,541,870</u>	<u>97,852,636</u>
Operating expenses			
Salaries and benefits	44,706,496	51,289,772	48,659,729
Supplies	15,492,649	16,058,154	15,133,956
Professional and purchased services	18,187,461	16,936,378	15,922,524
Depreciation and rent	7,954,628	9,346,499	9,749,129
Occupancy	3,208,835	3,495,499	3,534,912
Insurance	2,797,009	1,344,140	1,205,425
Other	4,097,611	2,973,970	2,863,626
Total operating expenses	<u>96,444,689</u>	<u>101,444,412</u>	<u>97,069,301</u>
Income (loss) from operations	(7,444,586)	(902,542)	783,335
Nonoperating loss, net	<u>(1,116,906)</u>	<u>(1,425,112)</u>	<u>(956,391)</u>
Revenues and gains in excess of expenses	(8,561,492)	(2,327,654)	(173,056)
Change in unrealized gains and (losses) on investments	<u>(26,005)</u>	<u>(179,152)</u>	<u>113,873</u>
Change in net assets	(8,587,497)	(2,506,806)	(59,183)
Net assets, beginning of year	<u>54,137,598</u>	<u>56,644,404</u>	<u>56,703,587</u>
Net assets, end of year	<u>\$ 45,550,101</u>	<u>\$ 54,137,598</u>	<u>\$ 56,644,404</u>

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

Income (loss) from operations

The first component of the overall change in the System's net assets is its income (loss) from operations - the difference between total operating revenues and total operating expenses incurred to perform those services. In FY 2010, the System experienced a loss from operations of \$7.4 million following the previous year's loss from operations of \$902 thousand. The primary contributions to the FY 2010 loss from operations were:

- Inpatient gross revenues decline by 17.7%, or \$8.5 million. Primary reasons for this decrease include a decrease in adult admissions of 23% and a decrease in inpatient surgeries of 10%. Outpatient gross revenues declined by 3%, or \$3.7 million. The 5% rate increase helped offset the decline in outpatient surgeries of 8%.
- Charity care and bad debts combined as a percentage of gross revenues increased from 7.1% to 7.5%. Charity care write-offs increased by \$0.5 million while bad debt write-offs decreased by \$0.5 million.
- Contractual adjustments, the difference between hospital charges and third party payer payments, increased by 7.3%. This large increase was due to the deterioration of the commercially insured patients as total percent of patients served and the increase in those patients covered by Medicaid. The following chart indicates these changes:

	%	2009	2010 Market
	Reimbursement Total to Charges	Percentage of Market	Change
Medicare inpatients	64.4%	17.4%	-7.0%
Medicare outpatients	34.5%	24.5%	10.9%
Medicaid inpatients	38.2%	4.5%	15.1%
Medicaid outpatients	29.2%	11.7%	26.7%
Commercial inpatients	81.3%	7.5%	-1.3%
Commercial outpatients	80.3%	28.3%	-19.6%
Workers comp inpatients	60.0%	0.0%	0.0%
Workers comp outpatients	57.5%	1.0%	-12.5%
Self pay/hospital charity	40.3%	5.1%	42.5%

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

As indicated in the above chart, those payers with the highest reimbursement as a percentage of hospital charges all lost market share in 2010 compared to 2009. The loss of outpatient commercially insured patients with the corresponding increase in Medicaid outpatients accounted for an increase in the contractual adjustments of almost \$3.2 million. This factor was another contributor to the financial deterioration of CMHRHS during 2010.

- Other operating revenue increased by \$0.3 million, due primarily to fewer losses on the disposal of assets compared to the prior year, and the receipt of the remaining Hale Donation funds, which were received from October 2009 through September 2010.
- Total operating expenses decreased 5.0%, or \$5.0 million. The most significant decreases included wages and benefits of \$6.5 million, depreciation and rent of \$1.3 million, and supplies of \$0.5 million, offset by slight increases in the other expense accounts.
- Wages decreased by 12.8% due to a 5% decrease in paid hours and vacant CFO and CMO positions in 2010. Supplies expense decreased 3.5% due to a decrease of 4% in surgeries. Purchased services increased 7.3% which included increase in information technology costs associated with the new system. Depreciation and rent decreased 14.8% as the result of current year retirements. Other expenses increased 20.4% as the result of a full year of the state franchise fee assessment.

Non-operating Losses

During FY 2010, the System experienced non-operating losses of \$1.1 million compared to \$1.4 million non-operating losses experienced in FY 2009.

November Activities Prior to Sale Closing

There were a number of activities prior to the closing on the sale of the System's assets on November 30, 2010. The Asset Purchase Agreement with RegionalCare Hospital Partners, LLC required several significant outlays prior to the closing. The new owners did not assume any of the insurance policies currently held by the System. The System's professional liability insurance was a claims made type policy. This required the hospital to purchase "tail" insurance coverage to maintain liability coverage for any subsequent claims filed and settled after November 30, 2010, but which the event had occurred prior to that date. The cost of that coverage was \$1,567,266. The hospital had also outsourced the operations of the IT department to McKesson in 2007.

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

RCHP did not wish to assume that contractual arrangement, so the parties split the cost of the buy out of that contract. CMHRHS's negotiated share of the buy out was limited to \$2,000,000, payable on the date of the closing. During the due diligence process, there were several contract compliance issues and Medicare and Medicaid overpayments on one day stays which were discovered and disclosed to the Department of Justice. A settlement was negotiated in the amount \$1,012,967 which was to be paid after the closing, so this was booked as an additional expense in the November statements. The System also adjusted several accruals to reflect the anticipated wind down costs of operations, such as legal expenses, and self insured health and dental claims, unemployment and worker compensation claims, Hospital Care Assurance Program assessments, and prepaid bond expenses.

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

The following chart represents the financial impact of the November adjustments:

	November	Closing Entries	November Adjusted Balance	Explanation
Inpatient revenue	\$ 3,578,057	\$ -	\$ 3,578,057	
Outpatient revenue	11,890,614	-	11,890,614	
Total patient service revenue	<u>15,468,671</u>	-	<u>15,468,671</u>	
Charity care	726,306	-	726,306	
Provision for bad debts	498,047	-	498,047	
Contractual adjustments	5,530,449	-	5,530,449	
Total deductions from revenue	<u>6,754,802</u>	-	<u>6,754,802</u>	
Net patient service revenue	8,713,869	-	8,713,869	
Other operating revenue	<u>129,770</u>	<u>(3,089)</u>	<u>126,681</u>	\$3,089 inventory adjustments
Total operating revenue	<u>8,843,639</u>	<u>(3,089)</u>	<u>8,840,550</u>	
Wages	3,080,130	-	3,080,130	
Benefits	1,231,291	48,257	1,279,548	\$158,808 increase IBNR, \$162,127 reduce for stop loss receivable, \$13,000 increase unemployment accrual, \$38,576 increase workers comp liability
Supplies	1,404,797	(42,608)	1,362,189	\$42,608 due to inventory adjustments \$2,000,000 McKesson Contract buyout, \$16,000 accrue closing cost report fees, \$400,000 legal fees accrued
Purchased services	3,538,253	2,416,000	5,954,253	\$84,056 Interventional Radiology
Professional fees	389,405	84,056	473,461	
Occupancy	304,594	-	304,594	
Insurance	1,799,822	1,567,266	3,367,088	\$1,567,266 Tail Coverage Policy
Rent	108,148	(13,995)	94,153	Prepaid Pyxis contract
Depreciation	596,398	-	596,398	
Other	<u>1,613,122</u>	<u>1,404,875</u>	<u>3,017,997</u>	\$1,012,967 Self Disclosure, \$65,983 HCAP two months assessment
Total operating expenses	<u>14,065,960</u>	<u>5,463,851</u>	<u>19,529,811</u>	
Loss from operations	(5,222,321)	(5,466,940)	(10,689,261)	
Non-operating gains, net	<u>(20,170)</u>	-	<u>(20,170)</u>	
Net gain (loss)	<u>\$ (5,242,491)</u>	<u>\$ (5,466,940)</u>	<u>\$ (10,709,431)</u>	

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

Cash Flows

Cash and cash equivalents decreased by \$1.9 million during FY 2010 due to cash used in capital and financing activities of \$5.7 million offset by cash received from investing activities of \$3.7 million.

Capital Assets and Debt

At the end of 2010, the System had \$67.8 million invested in capital assets, net of accumulated depreciation, as detailed in note 4 to the financial statements. In 2010, the System purchased new equipment costing \$788 thousand.

At the end of 2010, the System had \$36.1 million in bond, note and capital lease obligations outstanding as detailed in note 5 to the financial statements. The System issued no new debt during FY 2010 and FY 2009. The System repaid approximately \$3.3 million in debt during both FY 2010 and FY 2009.

Budget Comparison

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

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**

BALANCE SHEETS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

ASSETS		
	2010	2009 As Restated
Current assets		
Cash and cash equivalents	\$ 4,192,750	\$ 5,548,992
Short-term investments	1,581,750	1,771,060
Patient accounts receivable, less allowance for doubtful accounts of \$3,855,000 in 2010 and \$3,758,000 in 2009	10,255,469	9,683,495
Notes and other receivables	1,399,399	928,401
Estimated third-party settlements	704,132	-
Inventories	2,271,081	2,230,806
Prepaid expenses and other	2,440,079	2,707,645
Total current assets	22,844,660	22,870,399
Assets whose use is limited	1,093,509	564,111
Property, buildings and equipment, net	67,862,154	73,871,102
Other assets		
Investments	1,761,718	6,407,952
Notes and other receivables	-	221,243
Total other assets	1,761,718	6,629,195
Deferred outflows	1,248,200	957,522
Total assets and deferred outflows	\$ 94,810,241	\$ 104,892,329

See accompanying notes to financial statements.

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

BALANCE SHEETS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

LIABILITIES AND NET ASSETS

	2010	2009 As Restated
Current liabilities		
Trade accounts payable	\$ 5,476,408	\$ 3,580,722
Accrued salaries and wages	944,791	1,054,358
Accrued vacation	1,765,016	2,204,393
Other liabilities	4,943,925	3,148,490
Estimated third-party settlements	-	1,315,106
Current portion of long-term debt	3,580,000	3,180,625
Total current liabilities	16,710,140	14,483,694
Long-term debt, less current portion	32,550,000	36,271,037
Total liabilities	49,260,140	50,754,731
Net assets		
Unrestricted	12,724,438	19,154,047
Invested in capital assets, net of related debt	31,732,154	34,419,440
Restricted	1,093,509	564,111
	45,550,101	54,137,598
Total liabilities and net assets	\$ 94,810,241	\$ 104,892,329

See accompanying notes to financial statements.

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
ELEVEN MONTHS ENDED NOVEMBER 30, 2010
AND YEAR ENDED DECEMBER 31, 2009

	For the eleven months ending November 30, 2010	2009 As Restated
	<u>2010</u>	<u>As Restated</u>
Revenues		
Net patient service revenue	\$ 87,725,805	\$ 99,578,726
Other operating revenue	1,274,298	963,144
	<u>89,000,103</u>	<u>100,541,870</u>
Operating expenses		
Salaries and wages	32,850,497	38,109,226
Employee benefits	11,855,999	13,180,546
Supplies	15,492,649	16,058,154
Purchased services	13,720,593	11,716,046
Depreciation and rent	7,954,628	9,346,411
Occupancy	3,208,835	3,495,499
Repairs and maintenance	476,161	528,817
Physician fees	4,466,868	5,220,332
Insurance	2,797,009	1,344,140
Other	3,621,450	2,445,241
Total operating expenses	<u>96,444,689</u>	<u>101,444,412</u>
Loss from discontinued operations	(7,444,586)	(902,542)
Non-operating loss, net	<u>(1,116,906)</u>	<u>(1,425,112)</u>
Expenses in excess of revenue	(8,561,492)	(2,327,654)
Change in unrealized gain (loss) on investments	<u>(26,005)</u>	<u>(179,152)</u>
Change in net assets	(8,587,497)	(2,506,806)
Net assets, beginning of year as restated	<u>54,137,598</u>	<u>56,644,404</u>
Net assets, end of year	<u>\$ 45,550,101</u>	<u>\$ 54,137,598</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
ELEVEN MONTHS ENDED NOVEMBER 30, 2010
AND YEAR ENDED DECEMBER 31, 2009

	For the eleven months ending November 30, 2010	2009 As Restated
Operating activities		
Cash received from patients and third party payors	\$ 85,134,593	\$ 101,573,703
Cash paid to employees for wages and benefits	(45,255,440)	(51,180,180)
Cash paid to vendors for goods and services	(41,313,536)	(42,463,195)
Other receipts	1,274,298	963,144
Net cash from operating activities	(160,085)	8,893,472
Noncapital financing activities		
Contributions	295,314	293,748
Capital and related financing activities		
Repayment of long-term debt	(3,321,662)	(3,220,013)
Interest paid	(1,608,776)	(2,027,679)
Acquisition of property and equipment	(787,975)	(1,661,990)
Net cash from capital and related financing activities	(5,718,413)	(6,909,682)
Investing activities		
Change in investments, net	3,758,805	(345,330)
Notes and other receivables	(249,755)	13,516
Interest received	196,556	308,819
Net cash from investing activities	3,705,606	(22,995)
Net change in cash and cash equivalents	(1,877,578)	2,254,543
Cash and cash equivalents		
Beginning of year	7,068,206	4,813,663
End of year	\$ 5,190,628	\$ 7,068,206
Cash and cash equivalents include the following		
Cash and cash equivalents	\$ 4,192,750	\$ 5,548,992
Investments and assets whose use is limited	997,878	1,519,214
Total cash and cash equivalents	\$ 5,190,628	\$ 7,068,206

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS
ELEVEN MONTHS ENDED NOVEMBER 30, 2010
AND YEAR ENDED DECEMBER 31, 2009

	For the eleven months ending November 30, 2010	2009 As Restated
Reconciliation of operating income to net cash from operating activities		
Loss from discontinued operations	\$ (7,444,586)	\$ (902,542)
Adjustment to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	6,649,656	7,885,985
Loss on sale of assets	147,267	457,466
Bad debts	4,410,561	4,893,728
Changes in assets and liabilities:		
Patient accounts receivable	(4,982,535)	(3,199,839)
Inventories	(40,275)	(28,250)
Prepaid expenses and other assets	267,566	(162,070)
Trade accounts payable	1,895,686	(40,503)
Other liabilities	955,813	(311,591)
Estimated third-party settlements	(2,019,238)	301,088
Net cash from operating activities	\$ (160,085)	\$ 8,893,472
Noncash investing, capital and financing activities		
Unrealized gain (loss) on investments	\$ (26,005)	\$ (179,152)
Decrease (Increase) in fair value of interest rate swap	\$ (290,678)	\$ 285,638

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Clinton County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Clinton County as of November 30, 2010 and December 31, 2009, and the changes in its financial position or, where applicable, its cash flows for the eleven months ended November 30, 2010 and year ended December 31, 2009.

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.

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

NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses and reported as a change in net assets.

Patient Accounts Receivable and Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts. Payment for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, based on the discharge diagnosis per patient case. Certain other Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2006, while Medicaid reports have been settled through 2004.

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.

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NOTES TO FINANCIAL STATEMENTS
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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.

Inventories

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

Assets Whose Use is Limited

Assets whose use is limited consist of investments that are held by the trustee of revenue bonds.

Property, Buildings and Equipment

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

Compensated Absences

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

Grants and Contributions

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

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

NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

Restricted Resources

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

Net Assets

Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are net assets that are deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Charity Care

The Hospital treats patients regardless of their ability to pay. Amounts not collected under indigent care programs are considered to be charity care. Charity care measured at established rates approximated in \$7,861,000 and \$7,469,000 in 2010 and 2009, respectively.

Federal Income Tax

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

Risk Management

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

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

CLINTON MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. These changes had no effect on the change in net assets.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is May 4, 2011.

2. CHANGE IN ACCOUNTING PRINCIPLE AND CHANGE IN REPORTING ENTITY

The Hospital has adopted the requirements of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments. The Hospital is a party to an interest rate swap agreement which is a derivative instrument. The new guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge. For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also reported on the balance sheet.

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the balance sheet with the offsetting entry posted to investment income.

The Hospital's interest rate swap agreement was determined to be an effective hedge at the end of November 30, 2010 and December 31, 2009. As required by the new guidance, the Hospital retroactively restated the accompanying financial statements to implement hedge accounting relative to its interest rate swap agreement.

During 2010, the Clinton County Memorial Hospital Foundation, Inc. changed its Bylaws and Articles of Incorporation to no longer be a supporting organization of the Hospital. The Foundation's new purpose is to promote the health of the residents of Clinton County, Ohio rather than to solely support the Hospital.

**CLINTON MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

The effects of the change in accounting principle and change in reporting entity on the accompanying financial statements are as follows:

Net assets at January 1, 2009, as previously reported	\$ 59,515,807
Cumulative effect of change in accounting principle	1,243,159
Change in reporting entity	<u>(4,114,562)</u>
Net assets at January 1, 2009, as restated	<u>\$ 56,644,404</u>
Change in net assets at January 1, 2009, as previously reported	\$ (2,329,492)
Effect of change in accounting principle	(285,638)
Change in reporting entity	<u>108,324</u>
Change in net assets for 2009, as restated	<u>\$ (2,506,806)</u>

3. DEPOSITS AND INVESTMENTS

At November 30, 2010 and December 31, 2009, the carrying amounts of the Hospital's bank deposits for all funds were \$5,190,628 and \$7,068,206 respectively, and the bank balances were \$6,220,570 and \$7,917,720, respectively. Of the bank balances, \$500,000 and \$750,000 at December 31, 2010 and 2009, respectively, were covered by Federal Depository Insurance. Of the remaining balances, \$5,720,570 and \$7,167,720, respectively, were collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name.

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

	November 30, 2010	
	Cost	Market
Cash	\$ 5,190,628	\$ 5,190,628
U.S. obligations	3,414,230	3,439,099
Total	<u>\$ 8,604,858</u>	<u>\$ 8,629,727</u>
	December 31, 2009	
	Cost	Market
Cash	\$ 7,068,206	\$ 7,068,206
U.S. obligations	7,173,035	7,223,909
Total	<u>\$ 14,241,241</u>	<u>\$ 14,292,115</u>

**CLINTON MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

The Hospital's investments are uninsured with the securities held by the counter party, or by its agent, in the Hospital's name. Investments with specified maturities, all of which are held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at November 30, 2010.

	Carrying Amount	Maturities	
		< 1 Year	1-5 Years
U.S. obligations	\$ 3,439,099	\$ 130,500	\$ 3,308,599

Interest Rate Risk – The Hospital has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

Concentration of Credit Risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

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

NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2010 AND DECEMBER 31, 2009

4. PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings and equipment consist of the following at November 30, 2010 and December 31, 2009:

	<u>12/31/2009</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>11/30/2010</u>
Land and land improvements	\$ 3,326,712	\$ 38,943	\$ (474,066)	\$ 2,891,589
Buildings and improvements	86,603,665	280,810	(4,062,918)	82,821,557
Equipment	52,556,215	1,445,470	(6,328,588)	47,673,097
Construction in progress	1,231,145	(977,248)	-	253,897
Total capital assets	<u>143,717,737</u>	<u>787,975</u>	<u>(10,865,572)</u>	<u>133,640,140</u>
Less accumulated depreciation				
Land improvements	1,573,341	108,219	(474,066)	1,207,494
Buildings and improvements	30,946,765	2,699,510	(4,026,581)	29,619,694
Equipment	37,326,529	3,841,927	(6,217,658)	34,950,798
Total accum. depreciation	<u>69,846,635</u>	<u>6,649,656</u>	<u>(10,718,305)</u>	<u>65,777,986</u>
Capital assets, net	<u>\$ 73,871,102</u>	<u>\$ (5,861,681)</u>	<u>\$ (147,267)</u>	<u>\$ 67,862,154</u>

	<u>12/31/2008</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>12/31/2009</u>
Land and land improvements	\$ 3,330,187	\$ -	\$ (3,475)	\$ 3,326,712
Buildings and improvements	86,441,165	168,852	(6,352)	86,603,665
Equipment	52,848,636	976,013	(1,268,434)	52,556,215
Construction in progress	714,020	517,125	-	1,231,145
Total capital assets	<u>143,334,008</u>	<u>1,661,990</u>	<u>(1,278,261)</u>	<u>143,717,737</u>
Less accumulated depreciation				
Land improvements	1,438,200	137,299	(2,158)	1,573,341
Buildings and improvements	27,904,130	3,048,987	(6,352)	30,946,765
Equipment	33,439,114	4,699,699	(812,285)	37,326,529
Total accum. depreciation	<u>62,781,444</u>	<u>7,885,985</u>	<u>(820,795)</u>	<u>69,846,635</u>
Capital assets, net	<u>\$ 80,552,564</u>	<u>\$ (6,223,995)</u>	<u>\$ (457,466)</u>	<u>\$ 73,871,102</u>

Property, buildings and equipment at November 30, 2010 are considered long lived assets available for sale.

**CLINTON MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2010 AND DECEMBER 31, 2009

5. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at November 30, 2010 and December 31, 2009:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (0.75% at November 30, 2010). Debt was extinguished December 2010.
- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2005, with varying rates (0.75% at November 30, 2010). Debt was extinguished December 2010.
- County of Clinton, Ohio Series 2006A Note, interest rate of 5.15% due October 4, 2011. Debt was extinguished December 2010.

	<u>12/31/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>11/30/2010</u>
2002 bonds	\$ 28,110,000	\$ -	\$ 2,375,000	\$ 25,735,000
2005 bonds	10,395,000	-	-	10,395,000
2006 Notes	946,662	-	946,662	-
	<u>\$ 39,451,662</u>	<u>\$ -</u>	<u>\$ 3,321,662</u>	<u>\$ 36,130,000</u>

	<u>12/31/2008</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/2009</u>
2002 bonds	\$ 30,195,000	\$ -	\$ 2,085,000	\$ 28,110,000
2005 bonds	11,025,000	-	630,000	10,395,000
2006 Notes	1,451,675	-	505,013	946,662
	<u>\$ 42,671,675</u>	<u>\$ -</u>	<u>\$ 3,220,013</u>	<u>\$ 39,451,662</u>

The 2002 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds (2002 bonds) were used to refund and retire the 1992 and 1998 bonds and to finance the acquisition, construction, equipping, and installation of new hospital facilities. Under the terms of the 2002 revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited.

The 2005 Clinton County, Ohio adjustable rate demand hospital facilities revenue refunding and improvement bonds (2005 bonds) were used to finance the acquisition, construction and equipping of Hospital facilities. Under the terms of the 2005 revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited.

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NOTES TO FINANCIAL STATEMENTS
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The 2002 Bonds and the 2005 Bonds place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

The 2002 and 2005 Bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the Bonds based on its best efforts, these Bonds would be “put” back to the Bond Trustee, who would draw down on the letter of credit to pay down the Bonds. The reimbursement agreement between the letter-of-credit bank and the Hospital provides for the Hospital to reimburse the letter-of-credit bank for any remarketing draws within 368 days. The letter of credit expires on June 15, 2011 (see Note 12). The letter of credit is collateralized by the future revenues of the Hospital.

As noted in Note 12, the Hospital paid-off the outstanding 2002 and 2005 bonds in December 2010.

6. DERIVATIVE FINANCIAL INSTRUMENT – INTEREST RATE SWAP

Contracts

The Hospital has one interest rate swap agreement in effect at December 31, 2010 for \$10,395,000.

Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bonds, the Hospital entered into an interest rate swap in connection with its 2005 bonds. The intention of the swap agreement was to effectively change the Hospital’s variable interest rate on the bonds to a fixed rate of 4.23%.

Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps as of November 30, 2010 are as follows. The notional amount of the swap matches the principal amount of the associated debt and decline with the principle amortization on the bonds.

<u>Associated Bond Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>	<u>Counterparty Credit Rating</u>
2002 and 2005	\$ 10,395,000	12/15/2005	4.23%	0.75%	\$ (1,248,210)	Terminated December-10	BBB+ / A3 / A-

**CLINTON MEMORIAL HOSPITAL
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As of November 30, 2010, the negative fair values of the agreements may be countered by reductions in total interest payments under the swap agreement should the variable rate on the bonds increase. The variable rate on the swap is the Securities Industry and Financial Markets Association (SIFMA) swap index and resets weekly.

The counterparty carries a guarantee by an entity (“counterparty guarantor”) rated A3 by Moody’s Investors Service (Moody’s), BBB+ by Standard and Poor’s (S&P), and A- by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap and the bonds interest rates are both pegged to SIFMA index, therefore basis risk relating to the swap is minimal.

Termination Risk

The Hospital paid approximately \$1.3 million to terminate the swap in December 2010.

7. RESTRICTED NET ASSETS

Restricted net assets have been recorded for the following purposes:

	2010	2009
Restricted - held by trustee	\$ 1,093,509	\$ 564,111

8. NOTES AND OTHER RECEIVABLES

Notes and other receivables consist of the following:

	2010	2009
Physician receivable	\$ 320,065	\$ 314,600
HCAP receivable	244,135	172,368
Foundation receivable	334,354	278,213
Other receivable	500,845	163,220
Total	\$ 1,399,399	\$ 928,401

**CLINTON MEMORIAL HOSPITAL
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In 2009 the Foundation was considered a related party to the Hospital. During 2010, the Foundation changed its Bylaws and Articles of Incorporation to no longer be a supporting organization of the Hospital and therefore was not a related party at November 30, 2010.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Assets and liabilities measured at fair value on a recurring basis as of November 30, 2010 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
U.S. obligations	\$ -	\$ 3,439,099	\$ -	\$ 3,439,099
Total	<u>\$ -</u>	<u>\$ 3,439,099</u>	<u>\$ -</u>	<u>\$ 3,439,099</u>
Liabilities:				
Interest rate swap	\$ -	\$ 1,248,200	\$ -	\$ 1,248,200

**CLINTON MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. obligations	\$ -	\$ 7,223,909	\$ -	\$ 7,223,909
Total	<u>\$ -</u>	<u>\$ 7,223,909</u>	<u>\$ -</u>	<u>\$ 7,223,909</u>
Liabilities:				
Interest rate swap	\$ -	\$ 957,522	\$ -	\$ 957,522

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

10. CONCENTRATION OF CREDIT RISK

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

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

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

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The mix of accounts receivable (AR) and gross patient revenue (Revenue) from patients and third-party payers in 2010 and 2009 follows:

	2010		2009	
	AR	Revenue	AR	Revenue
Medicare	35%	43%	34%	42%
Medicaid	14%	17%	15%	16%
Other third party payors	29%	39%	27%	40%
Self pay patients	22%	2%	24%	2%
	100%	100%	100%	100%

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

11. PENSION PLAN

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

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

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

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

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

2010	\$	4,586,182
2009	\$	5,237,149
2008	\$	5,061,941

Hospital contributions made to fund post-employment healthcare benefits approximated \$1,413,000, \$2,200,000 and \$2,619,000 for 2010, 2009 and 2008, respectively, which are included in the table above.

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

12. SUBSEQUENT EVENT AND DISCONTINUED OPERATIONS

In December 2010, the Hospital was purchased for \$82 million by Regional Care Hospital Partners, a for-profit entity located in Brentwood, Tennessee. Sale proceeds were used in December 2010 to pay-off the outstanding 2002 and 2005 bonds and to terminate the interest rate swap agreement.

The cash and cash investments, totaling approximately \$7.5 million, held by the Hospital at the time of the sale were not purchased by RegionalCare Hospital Partners and are being used for the wind down operations of the former county hospital.

The wind down of operations includes payment of the last payroll and payroll related taxes, payoff of all paid time off accumulated by the employees, run out of self-insured health benefit claims, self insured worker compensation and unemployment compensation claims, contracts for filing final Medicare, Medicaid, HCAP, and Champus cost reports, legal fees incurred from the sale of the Hospital, and final settlements with the federal government on compliance issues and prior and current cost reports.

It is expected the wind down costs will total approximately \$7.0 million. The Hospital will also receive money in the amount of approximately \$3.4 million from stop loss insurance on the health benefit claims as well as Hospital Care Assurance Program and Upper Payment Limit funding for the 2010 operations.

Any excess funds after the wind down of the Hospital's former operations are anticipated to be transferred to Clinton County, Ohio.



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

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

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

We have audited the financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of and for the eleven months ended November 30, 2010, and have issued our report thereon dated May 4, 2011. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business type activities of Clinton County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Clinton County, Ohio, and the changes in financial position and cash flows for the eleven months then ended, in conformity with accounting principles generally accepted in the United States of America. Our report also included additional language relating to the Hospital adopting new accounting guidance as discussed in Note 2 of the financial statements and the sale of the Hospital's primary assets as discussed in Note 12 to the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

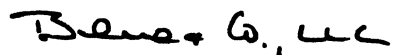
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated May 4, 2011.

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



May 4, 2011



Dave Yost • 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
JUNE 16, 2011**