

Financial Statements

Clinton Memorial Hospital d/b/a CMH Regional Health System

Years ended December 31, 2000 and 1999 with Report of Independent Auditors



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398
www.auditor.state.oh.us

Board of Trustees
Clinton Memorial Hospital
610 W. Main Street
Wilmington, Ohio 45177

We have reviewed the Independent Auditor's Report of the Clinton Memorial Hospital, Clinton County, prepared by Ernst & Young LLP, for the audit period January 1, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

October 17, 2001

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Clinton Memorial Hospital d/b/a CMH Regional Health System

Financial Statements

Years ended December 31, 2000 and 1999

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Report of Independent Auditors

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

We have audited the accompanying balance sheets of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital) as of December 31, 2000 and 1999, and the related statements of operations of general fund and changes in fund balance and statements of cash flows of general fund for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide 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 at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with the *Government Auditing Standards*, we have issued a report dated April 27, 2001 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 *Governmental Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.



April 27, 2001

Clinton Memorial Hospital d/b/a CMH Regional Health System

Balance Sheets

	December 31	
	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,036,934	\$ 9,577,564
Short term investments	1,422,774	2,063,404
Patient accounts receivable (less allowance for doubtful accounts of approximately \$2,869,000 in 2000 and \$2,629,000 in 1999)	9,769,539	8,710,289
Notes and other receivables	558,377	875,493
Inventories	755,797	723,120
Prepaid expenses and other	482,413	593,401
Total current assets	22,025,834	22,543,271
Property, buildings and equipment, net	35,138,542	28,659,244
Other assets:		
Investments	7,295,713	7,259,827
Notes and other receivables	571,119	266,937
	7,866,832	7,526,764
Total assets	\$65,031,208	\$58,729,279

	December 31	
	2000	1999
Liabilities and fund balance		
Current liabilities:		
Trade accounts payable	\$ 3,865,733	\$ 3,098,516
Accrued salaries and wages	690,358	797,440
Accrued vacation expenses	2,261,625	2,049,369
Other accrued expenses	1,158,530	333,966
Estimated settlement amounts due third-party payors	688,568	301,574
Current portion of long-term debt	1,165,845	1,214,318
Total current liabilities	9,830,659	7,795,183
Long-term debt	8,424,888	7,201,968
Fund balance	46,775,661	43,732,128
Total liabilities and fund balance	\$65,031,208	\$58,729,279

See accompanying notes.

Clinton Memorial Hospital d/b/a CMH Regional Health System

Statements of Operations of General Fund and
Changes in Fund Balance

	Year ended December 31	
	2000	1999
Operating revenue:		
Net patient service revenue	\$ 57,672,225	\$ 52,739,222
Other operating revenue	1,696,891	1,393,275
Total operating revenue	59,369,116	54,132,497
Operating expenses:		
Salaries and wages	24,362,185	22,417,776
Employee benefits	5,515,820	5,452,633
Supplies	9,178,686	8,581,577
Purchased services	5,289,513	5,744,901
Depreciation and rent	3,944,423	2,900,816
Provision for bad debts	2,674,451	2,127,833
Occupancy	2,258,255	2,143,903
Physician fees	2,432,280	2,073,469
Insurance	364,037	307,818
Interest	409,048	294,399
Other	1,353,571	1,206,290
Total operating expenses	57,782,269	53,251,415
Income from operations	1,586,847	881,082
Nonoperating gains, net	1,145,441	1,138,720
Revenue and gains in excess of expenses	2,732,288	2,019,802
Change in unrealized gains (losses), net	311,245	(300,721)
Fund balance at beginning of year	43,732,128	42,013,047
Fund balance at end of year	\$ 46,775,661	\$ 43,732,128

See accompanying notes.

Clinton Memorial Hospital d/b/a CMH Regional Health System

Statements of Cash Flows of General Fund

	December 31	
	2000	1999
Cash flow from operating activities		
Income from operations	\$ 1,586,847	\$ 881,082
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	3,625,851	2,708,783
(Gain) loss on disposal of assets	(88,375)	55,835
Change in net unrealized gains (losses) on investments	311,245	(300,721)
Changes in operating assets and liabilities:		
Patients accounts, notes and other receivables	(1,046,316)	(606,403)
Inventories	(32,677)	(131,249)
Prepaid expenses and other assets	110,988	259,564
Trade accounts payable	767,217	491,929
Other accrued expenses	929,738	24,557
Estimated settlement amounts third party payors	386,994	(783,644)
Net cash provided by operating activities	<u>6,551,512</u>	<u>2,599,733</u>
Cash flows from noncapital financing activities		
Donations received	197,886	182,329
Rental loss	(21,266)	(14,202)
Net cash provided by noncapital financing activities	<u>176,620</u>	<u>168,127</u>
Cash flows from capital and related financing activities		
Issuance of debt	2,300,000	2,000,000
Repayment of debt	(1,273,878)	(1,009,467)
Acquisition of property, buildings and equipment	(9,868,449)	(5,606,143)
Net cash used by capital and related financing activities	<u>(8,842,327)</u>	<u>(4,615,610)</u>
Cash flows from investing activities		
Sale (purchase) of investments	604,744	(471,912)
Interest income	968,821	970,593
Net cash provided by investing activities	<u>1,573,565</u>	<u>498,681</u>
Net increase (decrease) in cash and cash equivalents	(540,630)	(1,349,069)
Cash and cash equivalents at beginning of year	9,577,564	10,926,633
Cash and cash equivalents at end of year	<u>\$ 9,036,934</u>	<u>\$ 9,577,564</u>

See accompanying notes.

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements

December 31, 2000 and 1999

1. Summary of 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 the 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.

Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

Property, Buildings and Equipment

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

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

1. Summary of 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 40 percent and 43 percent of the Hospital's net patient service revenue for the years ended December 31, 2000 and 1999, 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 other 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 provision has 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 \$2,722,000 and \$2,678,000 in 2000 and 1999, 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 \$7 million and excess insurance of \$7 million for professional and general liability risks.

Cash and Cash Equivalents

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

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

2. Deposits and Investments

At December 31, 2000 and 1999, the Hospital's carrying amount of deposits was \$1,311,727 and \$2,702,227, respectively, and the bank balance was \$1,387,274 and \$2,715,349, respectively. Of the bank balance, \$200,000 and \$300,000, respectively, was covered by Federal Depository Insurance. Of the remaining balance, \$600,074 and \$799,602, respectively, was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name and \$587,200 and \$1,615,747, respectively, was collateralized with securities held by the pledging financial institution's trust department or agent but not in the Hospital's name.

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

	December 31, 2000		December 31, 1999	
	Cost	Market	Cost	Market
Cash	\$ 1,311,727	\$ 1,311,727	\$ 2,702,227	\$ 2,702,227
Other short-term investments	1,482,843	1,482,843	2,340,010	2,340,010
U.S. Treasury	4,727,576	4,757,723	2,507,115	2,467,276
U.S. Government Agencies	10,168,891	10,203,128	11,598,304	11,391,282
Total	<u>\$ 17,691,037</u>	<u>\$ 17,755,421</u>	<u>\$19,147,656</u>	<u>\$18,900,795</u>

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

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

3. Property, Buildings and Equipment

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

	2000	1999
Land and land improvements	\$ 2,158,904	\$ 2,094,686
Buildings and building improvements	27,746,776	24,515,589
Equipment	22,588,339	18,660,427
Construction in progress	6,193,622	3,599,871
Total	58,687,641	48,870,573
Less accumulated depreciation	(23,549,099)	(20,211,329)
Property, buildings and equipment, net	\$ 35,138,542	\$28,659,244

The Hospital has entered into various agreements to purchase capital items and for capital improvements. As of December 31, 2000, these commitments totaled approximately \$21.1 million.

4. Concentrations of Credit Risk

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

	2000	1999
Medicare	41%	33%
Medicaid	6	7
Other third-party payors	37	46
Self pay patients	16	14
	100%	100%

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

4. Concentrations of Credit Risk (continued)

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. The Hospital received settlements related to prior year cost reports which resulted in a increase in net patient service revenue of approximately \$53,000 and \$338,000 for the year ended December 31, 2000 and 1999, respectively.

5. Long-Term Debt

Long-term debt consisted of the following at December 31:

	<u>2000</u>	<u>1999</u>
Clinton County, Ohio, Variable Rate Demand Hospital Improvement Revenue Bonds:		
Series 1992, with varying rates (from 3.10% to 5.95% in 2000) with final maturity in February 2012	\$ 2,900,000	\$ 3,100,000
Clinton County, Ohio, Variable Rate Demand Hospital Revenue Bonds:		
Series 1998, with varying rates (from 2.90% to 5.95% in 2000) with final maturity in November 2025	5,120,000	3,430,000
Installment note, 8.0%, maturing in December 2003, with monthly payments of \$2,427, including interest	77,436	99,397
Capital lease obligations	1,493,297	1,786,889
Total	9,590,733	8,416,286
Less current portion	(1,165,845)	(1,214,318)
	<u>\$ 8,424,888</u>	<u>\$ 7,201,968</u>

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

The 1992 Clinton County, Ohio, Hospital Improvement Variable Rate Demand Revenue Bonds were used to finance certain capital expenditures. The Bonds are collateralized by an irrevocable letter of credit issued by a financial institution and a pledge of accounts receivable.

The Series 1998 Variable Rate Demand Hospital Revenue Bonds totaling \$6,300,000 were issued as a part of a \$148,380,000 County of Clinton, Ohio pooled financing program and were used to finance certain equipment purchases. The Bonds are collateralized by an irrevocable letter of credit issued by a financial institution and a pledge of future revenue. The Hospital reserved a total of \$10,000,000 of the proceeds from this issuance from the State of Ohio. Under the reimbursement agreement, the Hospital is under no obligation to draw the entire amount that they reserved. If the Hospital does not make draws in accordance with the draw schedule included in the reimbursement agreement, the Hospital may forfeit the reserved funds. Likewise, if the Hospital does not draw down the proceeds from this issuance within three years of the bond issuance date, the Hospital will forfeit the reserve funds. The draw schedule calls for periodic draws through May 1, 2001. The Hospital has drawn another \$2,200,000 and \$1,500,000 on January 2, 2001 and April 10, 2001, respectively.

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

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

5. Long-Term Debt (continued)

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

Year Ending December 31	Capital Lease Obligations	Long-Term Debt
2001	\$ 356,155	\$ 883,783
2002	356,155	890,757
2003	356,155	887,896
2004	356,107	865,000
2005	269,486	870,000
Thereafter	-	3,700,000
	<u>1,694,058</u>	<u>\$ 8,097,436</u>
Less amount representing interest on obligation under capital lease	<u>(200,761)</u>	
	<u>\$ 1,493,297</u>	

The net carrying value of assets recorded under capital lease was \$1,398,168 and \$1,799,683 at December 31, 2000 and 1999, respectively.

6. Future Minimum Rental Expense and Income

Rent expense amounted to approximately \$282,000 and \$158,000 in 2000 and 1999, 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:

2001	\$ 289,371
2002	238,654
2003	87,182
2004	71,716
2005	59,139
Thereafter	617,397
Total	<u>\$ 1,363,459</u>

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

6. Future Minimum Rental Expense and Income (continued)

The Hospital owns two medical office buildings and leases one facility from which it earns rental income under operating leases. The following is a schedule of minimum future rentals receivable by year and in the aggregate on noncancelable operating leases:

2001	\$ 232,135
2002	189,372
2003	94,807
2004	6,347
	<u>\$ 522,661</u>

7. Pension Plan

All Hospital employees, with the exception of certain students, are required to be members of the Public Employees Retirement System of Ohio (System or 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 in 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 2000, 1999 and 1998. The Hospital's contribution rate for January 1, 2000 through June 30, 2000 was 13.55% of covered payroll; the contribution rate for July 1, 2000 through December 31, 2000 was 9.565% of covered payroll. The portion used to fund the pension obligation for 2000 was unavailable as of the date of this report. The Hospital's contribution rate for 1999 and 1998 was 13.55% of covered payroll; the portion used to fund pension obligations for 1999 and 1998 was 9.35%. 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.

Clinton Memorial Hospital d/b/a CMH Regional Health System

Notes to Financial Statements (continued)

7. Pension Plan (continued)

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

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

	2000	1999	1998
Total Hospital payroll	\$23,972,000	\$22,090,000	\$ 20,558,000
Total Hospital covered payroll	\$23,752,000	\$21,856,000	\$ 20,345,000
Total Hospital contributions	\$ 2,564,000	\$ 2,961,000	\$ 2,757,000
Total employee contributions	2,019,000	1,858,000	1,729,000
Total contributions	\$ 4,583,000	\$ 4,819,000	\$ 4,486,000

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, is 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 obligation at December 31, 1998 (the most recent actuarial valuation) for the System as a whole was approximately \$23.1 billion.

The System's net assets available for benefits on that date (valued at market) was approximately \$23.7 billion, leaving an excess pension benefit obligation of approximately \$.6 billion. 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, 1999.

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
and
Jim Petro, Auditor of State:

We have audited the financial statements of Clinton Memorial Hospital (the Hospital) as of and for the year ended December 31, 2000, and have issued our report thereon dated April 27, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young LLP

April 27, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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
NOVEMBER 8, 2001**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
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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
NOVEMBER 8, 2001**