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

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Auditor of State
Betty Montgomery

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

We have reviewed the *Report of Independent Auditors* of Clinton Memorial Hospital, prepared by Blue & Co., LLC, for the audit period January 1, 2004 through December 31, 2004. 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. Clinton Memorial Hospital is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 6, 2005

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

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Blue & Co., LLC
Business Consultants Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Clinton Memorial Hospital d/b/a CMH Regional Health System (the Hospital), a component unit of Clinton County, Ohio, as of December 31, 2004 and 2003, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2004 and 2003, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

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AGN INTERNATIONAL

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2005, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Blue & Co., LLC

April 27, 2005

CMH REGIONAL HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

CMH Regional Health System (CMHRHS) operates Clinton Memorial Hospital (CMH), a short term acute care hospital with a sub-acute care skilled nursing unit located in Wilmington, Ohio, serving Clinton County and five surrounding counties. The system also consists of five physician practices, an urgent care center, occupational medicine services, home health services, community dental services, community health services, and a family medicine resident training program. In 2004, CMH Regional Health System served 4,744 inpatients and over 203,000 outpatients throughout the organization.

In 2000, the organization embarked upon a $50 million expansion program on the main campus in Wilmington. This expansion replaced all the inpatient acute care beds and surgery facilities, expanded the emergency center, and renovated various other departments within the hospital. During 2003, the major portion of the expansion project, the new patient tower, was completed and occupied. During 2004, completion of the Intensive Care Unit, Pharmacy Services, Cardiac Cath Lab, Rehabilitation Services, Laboratory Services and the expansion phase of Emergency Services took place. Completion of the remaining renovation phases is expected in early 2005.

Our discussion and analysis of CMH Regional Health System's financial performance provides an overview of the system's financial activities for the fiscal year ended December 31, 2004. The financial presentation includes the activities of Clinton Memorial Hospital as well as the CMH Foundation. Please read it in conjunction with the combined financial statements, which begin on page 3.

Financial Highlights for FY 2004

- CMHRHS reported an operating gain of $1,758,642.
- Net non-operating losses totaled $379,682.
- The operating gains combined with the net non-operating losses resulted in the total revenues and gains in excess of expenses of $1,378,960.
- Total patient revenues increased by $6,161,694 or 8.5 percent over the previous year, while total operating revenues increased by $5,155,078 or 6.8 percent compared to the previous year.
- Total operating expenses increased by $3,028,502 or 4.0 percent compared to the previous year.

Using This Annual Report

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

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

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

The Combined Statement of Cash Flows

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

Net Assets

CMH Regional Health System's net assets are the difference between its assets and liabilities reported in the Combined Balance Sheets on page 3 and 4. The net assets increased in FY 2004 by $1,303,419 or 2.1% percent over those reported in FY 2003 (see Table I).

Table 1: Assets, Liabilities, and Net Assets

	FY 2004	FY 2003
Assets		
Current assets	$ 23,771,988	$ 30,202,719
Capital assets, net	76,755,245	70,115,350
Other noncurrent assets	9,988,378	9,140,429
Total assets	110,515,611	109,458,498
Liabilities		
Long-term debt outstanding	34,875,070	34,982,195
Other current liabilities	12,326,302	12,465,483
Total liabilities	47,201,372	47,447,678
Net Assets		
Unrestricted	18,779,198	24,076,244
Invested in capital assets, net of related debt	40,385,206	33,916,253
Restricted	4,149,835	4,018,323
Total net assets	$ 63,314,239	$ 62,010,820

Operating Results and Changes in Net Assets

In 2004, CMH Regional Health System's net assets increased by $1,303,419 or 2.1 percent, as shown in Table 2. This increase is made up of very different components and represents an improvement over the net asset increase of $150,772 or .2 percent reported for FY 2003.

Table 2: Operating Results and Changes in Net Assets

	FY 2004	FY 2003
Operating revenues		
Net patient service revenues	$ 78,911,368	$ 72,749,674
Other operating revenues	1,648,924	2,655,540
Total operating revenues	80,560,292	75,405,214
Operating expenses		
Salaries and benefits	43,845,813	42,576,371
Medical supplies and drugs	12,128,050	11,026,176
Professional and purchased services	9,445,643	9,652,927
Depreciation and rent	6,269,512	5,343,900
Other operating expenses	7,112,632	7,173,774
Total operating expenses	78,801,650	75,773,148
Income (loss) from operations	1,758,642	(367,934)
Nonoperating (loss) gains, net	(379,682)	707,797
Revenues and gains in excess of expenses	1,378,960	339,863
Change in unrealized gains and (losses) on investments	(75,541)	(189,091)
Change in net assets	1,303,419	150,772
Net assets, beginning of year	62,010,820	61,860,048
Net assets, end of year	$ 63,314,239	$ 62,010,820

Operating Gains

The first component of the overall change in the organization's net assets is its operating gain (loss), - the difference between net total revenues and the expenses incurred to perform those services. In FY 2004, CMH Regional Health System experienced an operating gain of $1,758,642 following the previous year's operating loss of $367,934. The primary contributions to this performance improvement were:

- An increase in the growth rate of total revenues of $5.1 million or 6.8 percent In FY 2004 compared to $2.0 million or 2.6 percent in FY 2003, and
- A moderate growth rate of operating expenses of $3.3 million or 4.4 percent in FY 2004 compared to $5.6 million or 7.7 percent in FY 2003

The improvement in revenue in FY 2004 can be attributed to a strong rate of growth in the following services:

	------------- Revenues -------------				Rate of
		FY 2004		FY 2003	Growth
Surgical	$	23,145,291	$	19,238,917	20.3%
Imaging	$	23,212,676	$	21,047,936	10.3%
Pharmacy	$	8,959,518	$	7,438,768	20.4%
Cardiac Diagnostics	$	5,144,746	$	4,675,209	10.0%
Sleep Lab	$	894,715	$	754,623	18.6%

These five services represent 86.6 percent of the total growth experienced in patient revenues in FY 2004. The addition of an orthopedic surgeon in late 2003, and two general surgeons and a vascular surgeon in 2004 power the growth in surgical services as well as imaging services. Pharmacy revenues surged with the addition of the Pyxis automated medication dispensing system, allowing improved charge capture. The Sleep Lab was relocated into the hospital and expanded from two to four beds in April of 2004 while the cardiac cath lab opened in September of 2004.

Operating expenses increased by $3,028,502 or 4.0 percent in FY 2004 over FY 2003 with the following areas experiencing the highest percentage of change:

	------- Operating Expenses -------				Percent
		FY 2004		FY 2003	Change
Medical supplies and drugs	$	12,128,050	$	11,026,176	10.0%
Depreciation and rent	$	6,269,514	$	5,343,900	17.3%
Insurance	$	1,270,031	$	1,043,296	21.7%

Medical supplies for surgeries increased by $681,535 with the additional surgery volumes, particularly with the orthopedic and vascular specialties requiring implants. Depreciation and rent increased due to the completion of the hospital campus construction project and a full year rent expense for the River's Bend Health Center in Warren County. As is the case of the last few years, Ohio continues to experience a medical professional liability crisis. Tort reform, although passed by the state legislature in 2002, will not have an impact on stabilizing rates for several years. Property insurance also increased with the higher insurable asset values with the construction project completion.

Non-operating Revenues and Expenses

In conjunction with the campus expansion of the new patient tower, the CMH Foundation initiated a capital campaign drive for financial support from local businesses and the communities. The campaign resulted in almost $3.5 million in pledges. These funds were restricted to the use of the construction of the patient tower and renovations of the facilities on the main hospital campus. Several campaign pledges were determined not to be collectible during 2004 and pledged receivables have been adjusted to reflect the adjustments, resulting in lower non-operating revenues.

Capital Assets and Debt

During FY 2002, CMH Regional Health System issued $35 million in variable interest rate Revenue Bonds through the County of Clinton. These funds were used to repay existing debt from two previous bond issues totaling $28.2 million and finance the remaining costs of the patient tower. The remaining outlays for the renovations and emergency and laboratory departments' expansion are being paid from existing hospital reserves. A total of $509,636 is being held in a trust account by the end of FY 2004 for the second debt payment of $920,000 on the bonds due in June of 2005.

CMH Regional Health System Cash Flows

Total cash holdings declined by $5,394,365 or 40.8 percent during FY 2004. A total of $11.9 million was invested in plant and equipment during FY 2004.

Budget Comparison

Table 3 summarizes the comparison of actual operational results to budget for FY 2004 (CMH only).

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

	Actual FY 2004	Budget FY 2004
Operating revenues		
Gross patient service revenues	$ 114,865,578	$ 113,163,835
Less: Deductions from revenues	35,954,210	33,244,812
Net patient revenues	78,911,368	79,919,023
Other operating revenues	1,628,968	1,654,813
Total operating revenues	80,540,336	81,573,836
Operating expenses		
Salaries and benefits	43,845,813	44,641,927
Medical supplies and drugs	12,128,050	11,900,316
Professional and purchased services	9,445,643	9,359,868
Depreciation and rent	5,765,505	5,542,106
Occupancy	3,053,518	3,035,277
Insurance	1,270,031	1,288,613
Other operating expenses	2,900,525	2,372,833
Total operating expenses	78,409,085	78,140,940
Operating gain	2,131,251	3,432,896
Non-operating revenues and expenses	156,541	(141,493)
Revenues and gains in excess of expenses	$ 2,287,792	$ 3,291,403

Deductions From Revenues

Total net patient revenues fell short of expected budget by $1,008,000. Net revenues are the result of gross patient revenues less deductions from revenues. Deductions from revenues consist of contractual adjustments (the difference between the amounts the organization charges for services and the payments actually received for those services from Medicare, Medicaid and other third party payers) bad debt expense and amounts written off as charity care for those unable to pay for services rendered

Contractual adjustments on inpatient accounts varied from budget by $2.7 million or 8.1 percent. Patients covered by the Medicare program represent a majority of those admitted for overnight stays at CMH.

The program pays on a per discharge basis for acute care inpatients and a per day basis for sub-acute care inpatients. During FY 2004, the average actual write-off per Medicare inpatient case was $2,448 versus a budgeted $1,656. The difference was caused by a less-than-expected Medicare utilization of the Inpatient Rehab Unit. Reimbursement rates from Medicare for patients in the Inpatient Rehab Unit are much higher than for acute and sub-acute patients. This essentially increased the charges written-off per Medicare discharge by an average of $792 over budget. The total number of Medicare inpatients for FY 2004 was 2,592, resulting in additional contractual adjustments of approximately $2.0 million. The amount of outpatient contractual adjustments over budget by $1.8 million is related to the increase in volume of outpatient charges, the continued freeze in payment rates for Medicaid outpatient services, and low rate of increase in Medicare outpatient payment rates in FY 2004.

During FY 2004, the amounts written off as charity care exceeded budget by $328,271, a variance of 8.1 percent. This variance was influenced by two factors: the deterioration of the economy resulting in the loss of insurance coverage by the general population and the continued trend of increasing the employees' deductible and coinsurance amounts of corporate sponsored health plans.

Benchmarking

CMH Regional Health System regularly tracks industry benchmarks to determine efficiency and financial health of the organization and to determine compliance with required bond covenants. Financial ratios are also followed to determine compliance with existing bond covenants. Table 5 represents the financial outcome indicator comparison for the industry, versus CMH for FY 2003 and FY 2004 (hospital only).

CMH REGIONAL HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 5: Financial Outcome Indicators

INDICATORS	Industry *	Final 2003	Actual 2004
OPERATING EFFICIENCY			
Cost per Discharge (Case Mix & Wage Index adj)	$5,281.00	$5,340.56	$5,636.59
Cost per Visit (Wage Index adj)	$301.84	$252.11	$270.67
FTEs per Adjusted Daily Census	4.42	4.56	4.83
Patient Revenue Growth	n/a	7.5%	8.6%
Net Operating Revenue Growth	n/a	3.5%	8.9%
Operating Expense Growth	n/a	6.8%	6.3%
Contractual Adjustment Percentage	45.76%	32.0%	31.7%
All Patient Case Mix Index	1.17	1.0794	1.0871
Patient Length of Stay (days)	3.46	3.35	3.28
PROFITABILITY RATIOS:			
Operating Margin	n/a	-0.8	2.13%
Total Margin	3.2%	1.25%	1.62%
Return on Equity	4.2%	1.72%	2.10%
Growth Rate in Equity	6.7%	1.75%	2.10%
LIQUIDITY RATIOS:			
Days Revenue in Accounts Receivable	55.8	49.1	44.0
Average Payment Period - Days	51.8	54.8	54.4
Days Cash on Hand (All Sources)	125.5	86.4	65.6
CAPITAL STRUCTURE RATIOS:			
Long-term Debt to Capitalization	33.6%	37.8%	36.9%
Fixed Asset Financing	67.2%	50.0%	45.5%
Cushion Ratio	12.82	10.41	6.05
ASSET EFFICIENCY RATIOS:			
Total Asset Turnover	0.87	0.77	0.80
Fixed Asset Turnover	2.11	1.11	1.10
Average Age of Plant	9.45	7.65	6.61
BOND COVENANT RATIOS			
Current Ratio**	1.50	2.63	1.93
Debt Service Coverage**	2.00	3.60	3.66
Indebtedness to Fund Balance**	85.0%	80.1%	78.8%

* S&P A Rated (Source: 2003 Center for Healthcare Industry Performance Studies)
** CMH Bond covenant ratios - Industry figures listed are CMH specific for bond issue

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

Contacting the CMH Regional Health System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the organization's finances. If you have any questions about this report or need additional information, contact the Vice President of Finance/CFO at 610 West Main Street, Wilmington, Ohio 45177.

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

COMBINED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS

	2004	2003
Current assets		
Cash and cash equivalents	$ 7,840,735	$ 13,235,100
Short-term investments	1,961,706	2,769,244
Patient accounts receivable, less allowance for doubtful accounts of $2,241,000 in 2004 and $2,133,000 in 2003	9,519,553	10,256,943
Notes and other receivables	1,842,844	1,306,022
Inventories	1,265,522	1,172,316
Estimated third-party payor settlements	199,709	533,137
Prepaid expenses and other	1,141,919	929,957
Total current assets	23,771,988	30,202,719
Assets whose use is limited - held by trustee	509,636	442,759
Property, buildings and equipment, net	76,755,245	70,115,350
Other assets		
Investments	5,737,049	4,447,327
Notes and other receivables	3,741,693	4,250,343
Total other assets	9,478,742	8,697,670
Total assets	$ 110,515,611	$ 109,458,498

See accompanying notes to combined financial statements.

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

COMBINED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

LIABILITIES AND NET ASSETS

	2004	2003
Current liabilities		
Trade accounts payable	$ 3,762,351	$ 4,268,029
Accrued salaries and wages	552,468	1,193,285
Accrued vacation	2,524,528	2,687,412
Other accrued expenses	3,991,986	3,099,855
Current portion of long-term debt	1,494,969	1,216,902
Total current liabilities	12,326,302	12,465,483
Long-term debt, less current portion	34,875,070	34,982,195
Total liabilities	47,201,372	47,447,678
Net assets		
Unrestricted	18,779,198	24,076,244
Invested in capital assets, net of related debt	40,385,206	33,916,253
Restricted	4,149,835	4,018,323
	63,314,239	62,010,820
Total liabilities and net assets	$ 110,515,611	$ 109,458,498

See accompanying notes to combined financial statements.

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

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenues		
Net patient service revenue	$ 78,911,368	$ 72,749,674
Other operating revenue	1,648,924	2,655,540
Total revenues	80,560,292	75,405,214
Operating expenses		
Salaries and wages	33,127,572	32,046,738
Employee benefits	10,718,241	10,529,633
Supplies	12,128,050	11,026,176
Purchased services	6,911,669	6,921,142
Depreciation and rent	6,269,512	5,343,900
Occupancy	3,053,518	3,004,742
Physician fees	2,533,974	2,731,785
Insurance	1,270,031	1,043,296
Other	2,789,083	3,125,736
Total operating expenses	78,801,650	75,773,148
Income (loss) from operations	1,758,642	(367,934)
Nonoperating gains (losses), net	(379,682)	707,797
Revenue and gains in excess of expenses	1,378,960	339,863
Change in unrealized gains and losses on investments	(75,541)	(189,091)
Change in net assets	1,303,419	150,772
Net assets, beginning of year	62,010,820	61,860,048
Net assets, end of year	$ 63,314,239	$ 62,010,820

See accompanying notes to combined financial statements.

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

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating activities		
Cash received for patients and third party payors	$ 79,982,186	$ 70,925,156
Cash paid to employees for wages and benefits	(43,490,973)	(42,184,215)
Cash paid to vendors for goods and services	(31,031,804)	(30,596,195)
Other receipts, net	2,082,605	2,459,474
Net cash from operating activities	7,542,014	604,220
Capital and related financing activities		
Repayment of long-term debt	(1,462,170)	(342,260)
Issuance of long-term debt	-	600,000
Interest expense	(645,320)	(429,067)
Acquisition of property and equipment	(10,292,246)	(13,280,698)
Contributions	-	99,488
Net cash from capital and related financing activities	(12,399,736)	(13,352,537)
Investing activities		
Change in investments, net	(454,862)	1,569,758
Notes and other receivables	(253,220)	(627,195)
Interest income	265,638	1,050,151
Other	-	(5,381)
Net cash from investing activities	(442,444)	1,987,333
Net change in cash and cash equivalents	(5,300,166)	(10,760,984)
Cash and cash equivalents		
Beginning of year	13,677,859	24,438,843
End of year	$ 8,377,693	$ 13,677,859
Cash and cash equivalents include the following		
Cash and cash equivalents	$ 7,840,735	$ 13,235,100
Investments and assets whose use is limited	536,958	442,759
Total cash and cash equivalents	$ 8,377,693	$ 13,677,859
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 1,758,642	$ (367,934)
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	5,285,463	4,561,652
Loss on disposal of assets	-	35,308
Change in unrealized gains and losses on investments	(75,541)	(189,091)
Bad debts	2,595,992	1,905,731
Changes in assets and liabilities:		
Patient accounts receivable	(1,858,602)	(3,793,205)
Inventories	(93,206)	(106,861)
Prepaid expenses and other assets	(83,550)	300,523
Trade accounts payable	(422,232)	(1,569,820)
Accrued salaries, wages and other	101,620	(235,039)
Estimated third-party settlements	333,428	62,956
Net cash from operating activities	$ 7,542,014	$ 604,220
Supplemental disclosure of cash flow information		
Assets acquired under capital lease	$ 1,633,112	$ -

See accompanying notes to combined financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

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

Blended Component Unit

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

Use of Estimates

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

Cash and Cash Equivalents

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

Property, Buildings and Equipment

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

Assets Whose Use is Limited

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

Grants and contributions

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

Restricted resources

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

Net assets

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

	2004	2003
Debt service - held by trustee	$ 509,636	$ 442,759
Capital campaign	1,225,325	1,170,377
Funds to be held in perpetuity	2,414,874	2,405,187
	$ 4,149,835	$ 4,018,323

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

Compensated absences

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

Risk management

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

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts. Revenue from the Medicare and Medicaid programs accounted for approximately 51 percent of the Hospital's net patient service revenue for the years ended December 31, 2004 and 2003. Payment for the majority of Medicare and Medicaid inpatient services is based on a prospectively determined fixed price, based on the discharge diagnosis per patient case. Certain other Medicare and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. The Hospital receives reimbursement for other Medicaid and Medicare outpatient services at amounts which approximate the cost of providing the services.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2000, while Medicaid reports have been settled through 1998.

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.

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

Charity Care

The Hospital treats patients regardless of their ability to pay. Amounts not collected under indigent care programs are considered to be charity care. Charity care measured at established rates approximated $4,366,000 and $4,026,000 in 2004 and 2003, respectively.

Professional Liability Insurance

The Hospital's professional liability insurance is underwritten through Ohio Hospital Insurance Company, a private insurer. Professional liability coverage is provided up to $1 million per occurrence with an annual aggregate of $3 million and excess insurance of $10 million for professional and general liability risks.

Inventories

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

Reclassifications

Certain reclassifications were made to the 2003 financial statements to conform to the 2004 presentation.

2. DEPOSITS AND INVESTMENTS

At December 31, 2004 and 2003, the carrying amount of the Hospital's bank deposits for all funds was $8,412,389 and $13,677,859 respectively, and the bank balance was $9,416,199 and $14,279,164, respectively. Of the bank balance, $600,000 and $700,000 at December 31, 2004 and 2003, respectively, is covered by Federal Depository Insurance. Of the remaining balance, $0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name, $6,592,597 and $8,263,172, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Hospital's name and $2,223,602 and $5,315,992, respectively, was not collateralized. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

	December 31, 2004		December 31, 2003	
	Cost	Market	Cost	Market
Cash	$ 8,377,693	$ 8,377,693	$ 13,677,859	$ 13,677,859
U.S. obligations	7,607,965	7,545,947	7,198,252	7,216,571
Equities	100,045	125,486	-	-
Total	$ 16,085,703	$ 16,049,126	$ 20,876,111	$ 20,894,430

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

3. PROPERTY, BUILDINGS AND EQUIPMENT

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

	12/31/2003	Additions	Retirements/ Transfers	12/31/2004
Land and land improvements	$ 2,931,276	$ 78,172	$ (8,154)	$ 3,001,294
Buildings and improvements	67,782,176	5,925	9,685,519	77,473,620
Equipment	30,384,162	2,131,227	1,448,005	33,963,394
Construction in progress	3,743,490	9,710,034	(11,614,667)	1,838,857
Total capital assets	104,841,104	11,925,358	(489,297)	116,277,165
Less accumulated depreciation				
Land improvements	825,263	111,271	(3,669)	932,865
Buildings and improvements	14,621,408	2,312,869	(96,117)	16,838,160
Equipment	19,279,083	2,861,323	(389,511)	21,750,895
Total accumulated depreciation	34,725,754	5,285,463	(489,297)	39,521,920
Capital assets, net	$ 70,115,350	$ 6,639,895	$ -	$ 76,755,245

	12/31/2002	Additions	Retirements/ Transfers	12/31/2003
Land and land improvements	$ 2,552,201	$ -	$ 379,075	$ 2,931,276
Buildings and improvements	33,950,500	1,023,667	32,808,009	67,782,176
Equipment	25,148,602	5,499,286	(263,726)	30,384,162
Construction in progress	30,318,977	6,757,745	(33,333,232)	3,743,490
Total capital assets	91,970,280	13,280,698	(409,874)	104,841,104
Less accumulated depreciation				
Land improvements	726,479	98,784	-	825,263
Buildings and improvements	12,805,269	1,816,139	-	14,621,408
Equipment	16,992,551	2,646,729	(360,197)	19,279,083
Total accumulated depreciation	30,524,299	4,561,652	(360,197)	34,725,754
Capital assets, net	$ 61,445,981	$ 8,719,046	$ (49,677)	$ 70,115,350

In connection with the capital improvements the hospital has capitalized interest of $147,297 and $249,320 for the years ended December 31, 2004 and 2003, respectively.

4. CONCENTRATIONS OF CREDIT RISK

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

	2004	2003
Medicare	40%	40%
Medicaid	6%	10%
Other third-party payors	38%	36%
Self pay patients	16%	14%
	100%	100%

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

5. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2004 and 2003:

- Clinton County, Ohio, Adjustable Rate Demand Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2002, with varying rates (1.93% at December 31, 2004) with final maturity June 1, 2026.

- Note payable, interest only at varying rates with a single principle payment due July 1, 2008.

5. LONG-TERM DEBT AND LEASES (continued)

	12/31/2003	Additions	Payments	12/31/2004	Amount Due within 1 year
2002 bonds, issued June 2002	$ 35,000,000	$ -	$ 885,000	$ 34,115,000	$ 920,000
Capital leases	599,097	1,633,112	577,130	1,655,079	574,969
Note payable	600,000	-	40	599,960	-
	$ 36,199,097	$ 1,633,112	$ 1,462,170	$ 36,370,039	$ 1,494,969

	12/31/2002	Additions	Payments	12/31/2003	Amount Due within 1 year
2002 bonds, issued June 2002	$ 35,000,000	$ -	$ -	$ 35,000,000	$ 885,000
Installment note	27,895	-	27,895	-	-
Capital leases	913,462	-	314,365	599,097	331,902
Note payable	-	600,000	-	600,000	-
	$ 35,941,357	$ 600,000	$ 342,260	$ 36,199,097	$ 1,216,902

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

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

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

Year Ending December 31	Capital Lease Obligations	Principal Payments on Long-Term Debt	Interest Payments on Long-Term Debt
2005	$ 638,415	$ 920,000	$ 496,052
2006	368,929	960,000	481,105
2007	368,929	1,000,000	465,551
2008	368,929	1,639,960	449,344
2009	61,489	1,085,000	432,497
2010-2012	-	3,515,000	1,189,552
2013-2017	-	6,890,000	1,575,898
2018-2022	-	8,415,000	970,444
2023-2027	-	10,290,000	250,920
	$ 1,806,691	$ 34,714,960	$ 6,311,363
Less Amount representing interest on obligation under capital lease	(151,612)		
	$ 1,655,079		

The net carrying value of assets recorded under capital lease was $1,537,763 and $379,920 at December 31, 2004 and 2003, respectively.

5. FUTURE MINIMUM RENTAL EXPENSE AND INCOME

Rent expense amounted to approximately $556,000 and $603,000 in 2004 and 2003, respectively. The leases expire through 2047.

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

2005	$	199,788
2006		72,118
2007		73,921
2008		42,111
2009		12,000
Thereafter		454,000
Total	$	853,938

6. PENSION PLAN

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

Funding Policy

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

	2004	2003	2002
Total Hospital payroll	$ 33,128,000	$ 32,047,000	$ 29,800,000
Total Hospital covered payroll	$ 32,827,306	$ 31,757,377	$ 29,120,000
Total Hospital contributions	$ 4,448,100	$ 4,551,603	$ 3,946,000
Total employee contributions	2,939,694	2,699,377	2,475,000
Total contributions	$ 7,387,794	$ 7,250,980	$ 6,421,000

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2004 and 2003 employer contribution rates of 13.55% used to fund healthcare was 4% and 5%, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

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

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

Blue & Co., LLC
Business Consultants Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

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

Our audit for the year ended December 31, 2004, was conducted for the purpose of forming an opinion on the basic combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional System taken as a whole. The following 2004 financial information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Blue & Co., LLC

April 27, 2005

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CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING BALANCE SHEET
DECEMBER 31, 2004

ASSETS

	Clinton Memorial Hospital, Inc.	Clinton Foundation	Eliminations	Combined
Current assets				
Cash and cash equivalents	$ 5,611,724	$ 2,229,011	$ -	$ 7,840,735
Short-term investments	1,836,204	125,502	-	1,961,706
Patient accounts receivable, less allowance for doubtful accounts of $2,241,000 in 2004 and $2,133,000 in 2003	9,519,553	-	-	9,519,553
Notes and other receivables	1,926,290	-	(83,446)	1,842,844
Inventories	1,264,216	1,306	-	1,265,522
Estimated third-party payor settlements	199,709	-	-	199,709
Prepaid expenses and other	986,375	155,544	-	1,141,919
Total current assets	21,344,071	2,511,363	(83,446)	23,771,988
Assets whose use is limited - held by trustee	509,636	-	-	509,636
Property, buildings and equipment, net	75,456,175	1,299,070	-	76,755,245
Other assets				
Investments	5,737,049	-	-	5,737,049
Notes and other receivables	1,329,747	2,411,946	-	3,741,693
Total other assets	7,066,796	2,411,946	-	9,478,742
Total assets	$ 104,376,678	$ 6,222,379	$ (83,446)	$ 110,515,611

See report of independent auditors on other financial information on page 19.

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING BALANCE SHEET
DECEMBER 31, 2004

LIABILITIES AND NET ASSETS

	Clinton Memorial Hospital, Inc.	Clinton Foundation	Eliminations	Combined
Current liabilities				
Trade accounts payable	$ 3,750,737	$ 95,060	$ (83,446)	$ 3,762,351
Accrued salaries and wages	552,468	-	-	552,468
Accrued vacation	2,524,528	-	-	2,524,528
Other accrued expenses	3,043,521	948,465	-	3,991,986
Current portion of long-term debt	1,494,969	-	-	1,494,969
Total current liabilities	11,366,223	1,043,525	(83,446)	12,326,302
Long-term debt, less current portion	34,275,110	599,960	-	34,875,070
Total liabilities	45,641,333	1,643,485	(83,446)	47,201,372
Net assets				
Unrestricted	18,539,613	239,585		18,779,198
Invested in capital assets, net of related debt	39,686,096	699,110	-	40,385,206
Restricted	509,636	3,640,199	-	4,149,835
	58,735,345	4,578,894	-	63,314,239
Total liabilities and net assets	$ 104,376,678	$ 6,222,379	$ (83,446)	$ 110,515,611

See report of independent auditors on other financial information on page 19.

CLINTON MEMORIAL HOSPITAL d/b/a CMH REGIONAL SYSTEM

COMBINING STATEMENT OF OPERATIONS
AND CHANGES IN UNRESTRICTED NET ASSETS
YEAR ENDED DECEMBER 31, 2004

	Clinton Memorial Hospital, Inc.	Clinton Foundation	Eliminations	Combined
Revenues				
Net patient service revenue	$ 78,911,368	$ -	$ -	$ 78,911,368
Other operating revenue	1,628,968	19,956	-	1,648,924
Total revenues	80,540,336	19,956	-	$ 80,560,292
Operating expenses				
Salaries and wages	33,127,572	-	-	33,127,572
Employee benefits	10,718,241	-	-	10,718,241
Supplies	12,128,050	-	-	12,128,050
Purchased services	6,911,669	-	-	6,911,669
Depreciation and rent	5,765,505	504,007	-	6,269,512
Occupancy	3,053,518	-	-	3,053,518
Physician fees	2,533,974	-	-	2,533,974
Insurance	1,270,031	-	-	1,270,031
Other	2,900,525	397,780	(509,222)	2,789,083
Total operating expenses	78,409,085	901,787	(509,222)	78,801,650
Income (loss) from operations	2,131,251	(881,831)		1,758,642
Nonoperating gains (losses), net	156,541	(27,001)	(509,222)	(379,682)
Revenue and gains in excess of expenses	2,287,792	(908,832)		1,378,960
Change in unrealized gains and losses on investments	(75,541)	-	-	(75,541)
Change in net assets	2,212,251	(908,832)	-	1,303,419
Net assets, beginning of year	56,523,094	5,487,726	-	62,010,820
Net assets, end of year	$ 58,735,345	$ 4,578,894	$ -	$ 63,314,239

See report of independent auditors on other financial information on page 19.

Blue & Co., LLC
Business Consultants Certified Public Accountants

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

Board of Trustees
Clinton Memorial Hospital
Wilmington, Ohio

We have audited the combined financial statements of Clinton Memorial Hospital d/b/a CMH Regional Health System, a component unit of Clinton County, Ohio (the Hospital) as of and for the year ended December 31, 2004 and have issued our report thereon dated April 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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 combined financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Hospital in a separate letter dated April 27, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's combined 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 combined 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.*

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

Blue & Co., LLC

April 27, 2005

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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
AUGUST 4, 2005