

**JOEL POMERENE MEMORIAL HOSPITAL**

**AND**

**JOEL POMERENE FOUNDATION  
(COMPONENT UNIT)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Joel Pomerene Memorial Hospital  
981 Wooster Road  
Millersburg, Ohio 44654-1074

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 22, 2007

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**JOEL POMERENE MEMORIAL HOSPITAL AND  
JOEL POMERENE FOUNDATION (Component Unit)**

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DECEMBER 31, 2006 AND 2005**

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Joel Pomerene Memorial Hospital  
Millersburg, Ohio

We have audited the accompanying financial statements of Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio and Joel Pomerene Foundation (Component Unit) (collectively, the Hospital) as of and for the year ended December 31, 2006, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holmes County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The 2005 financial statements were audited by other auditors whose report dated March 1, 2006 expressed an unqualified opinion.

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

As discussed in Note 1, the basic financial statements present only Joel Pomerene Memorial Hospital as a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) and are not intended to present fairly the financial position of Holmes County, Ohio, and the results of its operations and cash flows of its business-type activities and component unit in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
JOEL POMERENE MEMORIAL HOSPITAL

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio, and Joel Pomerene Memorial Foundation (component unit) as of December 31, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 19, 2007 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when considering the results of our audit.

Management's discussion and analysis on pages i through vi 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.

Blue & Co., LLC

April 19, 2007

# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

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## Management's Discussion and Analysis

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The discussion and analysis of Joel Pomerene Memorial Hospital (business-type activities) and Joel Pomerene Foundation's (component unit) financial statements provides an overview of the Hospital's financial activities for the year ended December 31, 2006 and 2005. The intent of this discussion and analysis is to provide further information on the Hospital's and Foundation's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

### Financial Highlights

- In 2006, total assets increased \$1,304,296 over 2005 levels. Total business-type activities assets increased \$1,288,538 and total component unit assets increased \$15,758.
- Net accounts receivable increased \$1,422,103. Net days in accounts receivable were 72 at December 31, 2006, compared to 62 at December 31, 2005.
- Total liabilities increased \$366,114; current liabilities increased \$342,279; other long term liabilities increased \$23,835 from December 31, 2006 to December 31, 2005.
- Net cash provided by operating activities was \$972,095 in 2006 compared to \$2,421,427 in 2005 for the business-type activities and \$252,666 in 2006 compared to \$500,135 in 2005 for the component unit.

### Overview of Financial Statements

This annual report consists of financial statements and notes to those statements. These statements are organized to present Joel Pomerene Memorial Hospital as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

Joel Pomerene Memorial Hospital (the Hospital), a component unit of Holmes County, is organized as a county hospital under the provisions of the general statutes of the State of Ohio.

While the County is empowered to appropriate money from its general fund, from certain state and federal money it receives, and with approval of the electorate, levy taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no County appropriations for operations.

The Board of Trustees, appointed by the Board of County Commissioners, the Probate and Common Pleas Judges, is charged with maintenance, operation and management of the Hospital, its finances and staff. The Hospital's primary mission is to provide high quality, cost-effective healthcare in a compassionate and friendly manner to the citizens of the greater Holmes County community.



# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

## Management's Discussion and Analysis

The Financial Statements include the accounts and transactions of the Hospital and Joel Pomerene Foundation. All significant inter-company accounts and transactions have been eliminated from the financial statements.

The Statements of Net Assets, the Statements of Activities, and Statements of Cash Flows provide an indication of the Hospital's financial health. The Statement of Net Assets include the Hospital's assets and liabilities, using the accrual basis of accounting as well as an indication about which assets can be utilized for general purposes and which are restricted for other purposes. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of debt and capital asset acquisitions.

### Financial Analysis of the Hospital

Pomerene Hospital's Net Assets changed from a year ago, increasing from \$20,968,145 to \$21,802,939. Table 1 provides a summary of the Hospitals Net Assets for 2006 compared to 2005.

**Table 1  
Net Assets**

	Business-Type Pomerene Hospital		Governmental Activities Joel Pomerene Foundation		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 7,688,335	\$ 6,203,258	\$ 1,708,098	\$ 1,636,195	\$ 9,396,433	\$ 7,839,453
Assets whose use is limited	6,598,365	6,683,969	-	-	6,598,365	6,683,969
Other assets	258,045	453,381	-	58,287	258,045	511,668
Capital assets	9,926,848	9,842,447	3,212	1,070	9,930,060	9,843,517
Total assets	24,471,593	23,183,055	1,711,310	1,695,552	26,182,903	24,878,607
<b>Liabilities</b>						
Current liabilities	2,527,673	2,097,764	(2,823)	84,807	2,524,850	2,182,571
Long-term liabilities	140,981	117,146	-	-	140,981	117,146
Total liabilities	2,668,654	2,214,910	(2,823)	84,807	2,665,831	2,299,717
<b>Net assets</b>						
Capital assets net of related debt	9,631,044	9,646,748	3,212	1,070	9,634,256	9,647,818
Unrestricted	12,171,895	11,321,397	16,566	38,475	12,188,461	11,359,872
Restricted	-	-	1,694,355	1,571,200	1,694,355	1,571,200
Total net assets	\$ 21,802,939	\$ 20,968,145	\$ 1,714,133	\$ 1,610,745	\$ 23,517,072	\$ 22,578,890

In 2006 the cash and investment position increased \$219,003 over 2005. Cash from business-type activities decreased \$29,381, while cash from governmental activities increased \$248,384.

# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

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## Management's Discussion and Analysis

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The Hospital maintains sufficient cash balances in current assets to cover approximately 30 days of expenses. All excess cash is transferred to assets limited as to use. The assets limited as to use at the end of 2006 were \$6,598,365 compared to \$6,683,969 at the end of 2005.

### **Capital Assets**

Business-type capital assets increased from \$9,842,447 to \$9,926,848 in 2006. The increase relates to \$1,460,000 in capital additions, offset by \$1,375,000 in depreciation expense and disposals. Major capital additions include the purchase of land, room renovations and imaging equipment.

The component unit assets depreciated \$2,140 in 2006.

### **Pledges Receivable and Pledge Revenue**

At December 31, 2006 the net pledges receivable for the Joel Pomerene Foundation decreased \$234,768 from the previous year. The total pledges receivable was \$248,803 at December 31, 2006 and \$519,242 at December 31, 2005 with an allowance for uncollectible pledges of \$79,449 and \$115,120, respectively.

The reason for the drop in both pledges receivable was that in 2002 the Joel Pomerene Foundation actively solicited pledges for the capital campaign for funds to be used in a construction/renovation project in the planning phase. In 2003 a hold was put on the campaign until the construction plans were finalized.

# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

## Management's Discussion and Analysis

### Revenues and Expenses

Table 2 shows the changes in revenues and expense for 2006 compared to 2005.

**Table 2  
Revenues and Expenses**

	Business-Type Pomerene Hospital		Governmental Activites Joel Pomerene Foundation		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Net patient service revenue	\$ 28,179,317	\$ 24,437,474	\$ -	\$ -	\$ 28,179,317	\$ 24,437,474
JP Foundation revenues	-	-	1,468,171	589,455	1,468,171	589,455
Other revenues	365,899	326,476	-	-	365,899	326,476
<b>Total revenue</b>	<b>28,545,216</b>	<b>24,763,950</b>	<b>1,468,171</b>	<b>589,455</b>	<b>30,013,387</b>	<b>25,353,405</b>
<b>Operating expenses</b>						
Salaries and wages	10,503,150	10,111,998	-	-	10,503,150	10,111,998
Employee benefits	3,156,140	3,160,031	-	-	3,156,140	3,160,031
Supplies and other	9,961,743	7,484,722	-	-	9,961,743	7,484,722
Medical professional fees	2,494,453	1,824,389	-	-	2,494,453	1,824,389
Physical recruiting	504,852	535,448	-	-	504,852	535,448
Depreciation	1,347,194	1,270,053	-	-	1,347,194	1,270,053
JP Foundation expenses	-	-	1,364,783	289,116	1,364,783	289,116
<b>Total expenses</b>	<b>27,967,532</b>	<b>24,386,641</b>	<b>1,364,783</b>	<b>289,116</b>	<b>29,332,315</b>	<b>24,675,757</b>
Operating income	577,684	377,309	103,388	300,339	681,072	677,648
Non operating Income	307,782	1,285	-	-	307,782	1,285
Federal grant	-	738,119	-	-	-	738,119
NE Network Grant expenses	(49,823)	(31,527)	-	-	(49,823)	(31,527)
Changes fair value of investments	(849)	17,566	-	-	(849)	17,566
<b>Change in net assets</b>	<b>\$ 834,794</b>	<b>\$ 1,102,752</b>	<b>\$ 103,388</b>	<b>\$ 300,339</b>	<b>\$ 938,182</b>	<b>\$ 1,403,091</b>

### Net Patient Service Revenues

Compared to 2005, net patient service revenues increased \$3,741,843 or 15%.

For fiscal year 2006, the Hospital Board of Trustees approved no price increase. Inpatient admissions were up 5% and outpatient registrations were up 6%.

# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

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## Management's Discussion and Analysis

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### **Deductions from Revenue**

Deductions from revenue expressed as a percentage of gross revenues were recorded at 37% in 2006, compared to 38% in 2005.

Charity care for 2006 increased 10% when compared to 2005 levels. In the 1980's the State of Ohio developed a program designed to help hospital's address the increasing number of low income, special needs patients. The Hospital Care Assurance Program (HCAP) is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of funds is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment. For 2006, Pomerene Hospital's HCAP distribution was \$385,711 more than its assessment, compared to \$634,560 in 2005.

### **Operating Expenses**

Total operating expenses in 2006 exceeded the 2005 levels by \$4,656,558 or 19%.

### **Salary & Wages**

To remain competitive in the market place, the Board of Trustees approved hourly/salary pay adjustments as part of the 2006 Operating Budget. The market driven adjustment totaled approximately \$100,000.

Total FTEs decreased 2% from 2005 to 2006.

### **Employee Benefits**

The amounts paid relating to employee benefits for the Hospital decreased \$3,891 from 2005 to 2006.

### **Medical and Professional Fees**

The medical and professional fees increased \$670,064 in 2006 when compared to 2005. The increase is primarily related to the Hospital's new arrangements with the emergency room physicians as well as contracting for administrative positions in 2006.

### **The 2007 Operating Budget**

The Board of Trustees approved the 2007 Operating Budget at its November 2006 meeting. The Budget was developed in conjunction with internal and external economic factors including the expected level of inflation, salary and wage surveys, new physicians and new services. The 2007 budget has flat revenues compared to 2006.

The 2007 budget calls for an excess of revenues over expenses of \$848,055 or a 3% operating margin.

# Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)

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## Management's Discussion and Analysis

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### **Contacting the Hospital's Management**

This financial report is intended to provide the people of Holmes County, the state and federal governments, and our debt holders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it receives from the services it provides. If you have any questions about this report or need additional information, we welcome you to contact us.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2006 AND 2005

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2006	2005	2006	2005
<b>Current assets</b>				
Cash and cash equivalents	\$ 1,360,271	\$ 1,389,652	\$ 768,583	\$ 745,769
Investments	-	-	770,161	544,591
Patient accounts receivable, net of uncollectible accounts of \$1,000,000 in 2006 and \$940,000 in 2005	5,595,364	4,173,261	-	-
Current portion of pledges receivable, less allowance for uncollectible pledges	-	-	169,354	345,835
Other receivables	2,011	24,511	-	-
Inventories	409,036	383,164	-	-
Estimated third-party settlements	77,545	-	-	-
Prepaid expenses and other assets	244,108	232,670	-	-
<b>Total current assets</b>	<u>7,688,335</u>	<u>6,203,258</u>	<u>1,708,098</u>	<u>1,636,195</u>
<b>Pledges receivable</b>	-	-	-	58,287
<b>Other</b>	258,045	453,381	-	-
<b>Assets limited as to use, net of current portion</b>	6,598,365	6,683,969	-	-
<b>Capital assets, net of depreciation</b>	<u>9,926,848</u>	<u>9,842,447</u>	<u>3,212</u>	<u>1,070</u>
<b>Total Assets</b>	<u>\$ 24,471,593</u>	<u>\$ 23,183,055</u>	<u>\$ 1,711,310</u>	<u>\$ 1,695,552</u>
<b>Current liabilities</b>				
Current portion of long-term debt and leases	\$ 154,823	\$ 78,553	\$ -	\$ -
Accounts payable	430,392	364,044	107	987
Estimated third-party settlements	-	103,205	-	-
Accrued salaries, wages and employee benefits	1,762,455	1,388,505	(2,930)	-
Other accrued expenses	180,003	163,318	-	83,820
Deferred revenue	-	139	-	-
<b>Total current liabilities</b>	<u>2,527,673</u>	<u>2,097,764</u>	<u>(2,823)</u>	<u>84,807</u>
<b>Long-term debt, net of current portion</b>				
Debt and leases, less current portion	<u>140,981</u>	<u>117,146</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	2,668,654	2,214,910	(2,823)	84,807
<b>Net assets</b>				
Capital assets, net of related debt	9,631,044	9,646,748	3,212	1,070
Restricted-by donor for specific uses	-	-	1,694,355	1,571,200
Unrestricted	<u>12,171,895</u>	<u>11,321,397</u>	<u>16,566</u>	<u>38,475</u>
<b>Total net assets</b>	<u>21,802,939</u>	<u>20,968,145</u>	<u>1,714,133</u>	<u>1,610,745</u>
<b>Total liabilities and net assets</b>	<u>\$ 24,471,593</u>	<u>\$ 23,183,055</u>	<u>\$ 1,711,310</u>	<u>\$ 1,695,552</u>

See accompanying notes to financial statement.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2006	2005	2006	2005
<b>Revenue</b>				
Net patient service revenue	\$ 28,179,317	\$ 24,437,474	\$ -	\$ -
Contributions	-	-	52,890	300,547
Fund-raising income	-	-	11,022	14,104
Interest income	-	-	45,380	12,572
Grants	-	-	-	9,592
Employee lease revenue	-	-	1,358,879	252,640
Other operating revenue	365,899	326,476	-	-
<b>Total Revenue</b>	<b>28,545,216</b>	<b>24,763,950</b>	<b>1,468,171</b>	<b>589,455</b>
<b>Expenses</b>				
Salaries and wages	10,503,150	10,111,998	1,206,014	231,132
Employee benefits	3,156,140	3,160,031	122,240	22,254
Supplies and other	9,961,743	7,484,722	-	-
Medical professional fees	2,494,453	1,824,389	-	-
Physician recruiting and incentive	504,852	535,448	-	-
Depreciaton and amortization	1,347,194	1,270,053	2,140	2,140
Other	-	-	34,389	33,590
<b>Total operating expenses</b>	<b>27,967,532</b>	<b>24,386,641</b>	<b>1,364,783</b>	<b>289,116</b>
<b>Operating income</b>	<b>577,684</b>	<b>377,309</b>	<b>103,388</b>	<b>300,339</b>
<b>Nonoperating gains (losses)</b>				
Net non-operating income	307,782	1,285	-	-
Federal grant	-	738,119	-	-
NE network grant-net	(49,823)	(31,527)	-	-
Change in fair value of investments	(849)	17,566	-	-
<b>Change in net assets</b>	<b>834,794</b>	<b>1,102,752</b>	<b>103,388</b>	<b>300,339</b>
<b>Net assets, beginning of year</b>	<b>20,968,145</b>	<b>19,865,393</b>	<b>1,610,745</b>	<b>1,310,406</b>
<b>Net assets, end of year</b>	<b>\$ 21,802,939</b>	<b>\$ 20,968,145</b>	<b>\$ 1,714,133</b>	<b>\$ 1,610,745</b>

*See accompanying notes to financial statements.*

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Cash received from patients and third-party payors	\$ 26,576,323	\$ 25,733,716	\$ 1,657,559	\$ 689,612
Interest income	-	-	45,380	12,692
Cash paid to supplies for services and goods	(12,701,472)	(10,151,878)	(1,450,273)	(202,169)
Cash payments to employees for services	(13,268,655)	(13,486,887)	-	-
Other operating revenue received	365,899	326,476	-	-
Net cash from operating and nonoperating activities	<u>972,095</u>	<u>2,421,427</u>	<u>252,666</u>	<u>500,135</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	(1,238,291)	(1,757,853)	(4,282)	-
Principal payments on capital leases	(121,526)	(75,290)	-	-
Principal payments on capital related debts	-	(906,835)	-	-
Interest paid on capital related debt and capital leases	(12,702)	(51,737)	-	-
Net cash from capital and related financing activities	<u>(1,372,519)</u>	<u>(2,791,715)</u>	<u>(4,282)</u>	<u>-</u>
<b>Cash flows from noncapital financing activities</b>				
Other nonoperating activities	(21,496)	738,119	-	-
Net cash from noncapital financing activities	<u>(21,496)</u>	<u>738,119</u>	<u>-</u>	<u>-</u>
<b>Cash flow from investing activities</b>				
Interest on investments	307,782	144,190	-	-
Net change in investments and assets whose use is limited	690,077	(823,127)	(225,570)	39,886
Net cash from investing activities	<u>997,859</u>	<u>(678,937)</u>	<u>(225,570)</u>	<u>39,886</u>
<b>Net change in cash and cash equivalents</b>	<u>575,939</u>	<u>(311,106)</u>	<u>22,814</u>	<u>540,021</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>4,592,353</u>	<u>4,903,459</u>	<u>745,769</u>	<u>205,748</u>
<b>Cash and cash equivalents- end of year</b>	<u>\$ 5,168,292</u>	<u>\$ 4,592,353</u>	<u>\$ 768,583</u>	<u>\$ 745,769</u>
<b>Cash and cash equivalents include the following:</b>				
Cash and equivalents	\$ 1,360,271	\$ 1,389,652	\$ 768,583	\$ 745,769
Assets limited as to use cash and cash equivalents				
Board designated for future capital improvements	3,764,751	3,159,431	-	-
Funds available for future construction and equipment	43,270	43,270	-	-
Total cash and cash equivalents	<u>\$ 5,168,292</u>	<u>\$ 4,592,353</u>	<u>\$ 768,583</u>	<u>\$ 745,769</u>
<b>A reconciliation of the general fund income from operations to net cash flows provided by operating activities:</b>				
Income from operations	\$ 577,682	\$ 325,572	\$ 103,388	\$ 300,339
Adjustments to reconcile income from operations to net cash from operating activities:				
Depreciation and amortization	1,347,194	1,270,053	2,140	2,140
Bad debt expense	1,227,760	926,258	-	-
Interest expense	12,702	51,737	-	-
Changes in assets and liabilities:				
Patient accounts receivable	(2,649,863)	123,465	-	-
Pledges receivable	-	-	234,768	112,849
Other receivables	22,500	2,995	-	-
Inventories	(25,872)	17,630	-	-
Prepaid expenses and other assets	183,898	(90,638)	-	-
Accounts payable	66,348	(102,452)	(880)	987
Accrued expenses	390,635	(338,526)	(86,750)	83,820
Deferred revenue	(139)	(8,191)	-	-
Estimated third-party settlements	(180,750)	243,524	-	-
Net cash from operating activities	<u>\$ 972,095</u>	<u>\$ 2,421,427</u>	<u>\$ 252,666</u>	<u>\$ 500,135</u>
Supplemental disclosure of cash flow information				
Cash paid for interest	\$ 12,702	\$ 51,737	\$ -	\$ -
Capital assets acquired under capital leases	\$ 221,631	\$ -	\$ -	\$ -

See accompanying notes to financial statements.



**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**1. NATURE OF BUSINESS**

Joel Pomerene Memorial Hospital

Joel Pomerene Memorial Hospital (the Hospital) is a general acute care hospital owned by Holmes County, Ohio. The ultimate responsibility and ownership of the Hospital is vested on the Holmes Country Board of Commissioners who, together with the Probate and Common Please Court Judges, appoint a Board of Trustees for the administrative control of the Hospital. The Hospital's activity is reflected as an enterprise fund in the Holmes County Financial Statements. The Hospital has 55 beds.

The Hospital's financial statements have been presented in conformity with generally accepted accounting principles as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants and Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (Statement No. 34).

Joel Pomerene Foundation

Joel Pomerene Foundation (Foundation) manages and coordinates fund raising campaigns, deferred-giving programs, and similar activities for the financial and volunteer support of the Hospital. The Foundation is a component unit of the Hospital. The Foundation actively participates in consortia, preferred provider organizations, and similar activities and develops innovative health care delivery strategies in which to participate on behalf of the Hospital. In addition, the Foundation owns and operates the Health Professionals of Holmes County, Inc. This company employs staff which are in turn leased directly to the Hospital.

The Foundation is governed by a Board of Trustees, who were originally appointed by the sole member, Joel Pomerene Memorial Hospital. The term of office of each Trustee shall be one year with a maximum of three consecutive full terms.

The Foundation has been granted an exemption from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Reclassifications

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

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hospital and Foundation (the Reporting Entity) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards (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. The Foundation has elected to use the Governmental Reporting Model as determined in the Governmental Accounting Standards Board Statement 29 (GASB 29-The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities).

### **Basis of Presentation**

The Reporting Entity's basic financial statements consist of government-wide statements, including statement of net assets and a statement of activities.

The statement of net assets and the statement of activities display information about the Reporting Entity as a whole. These statements include the financial activities of the primary government and component unit. The statements distinguish between those activities of the Reporting Entity that are considered business-type activities and the component unit.

The statement of net assets presents the financial condition of the business-type activities and component unit of the Reporting Entity at year-end. The statement of activities presents a comparison between expenses and revenues for the business-type activities and component unit of the Reporting Entity.

### **Measurement Focus**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Reporting Entity are included on the statement of net assets.

### **Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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Revenues, Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Reporting Entity receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Reporting Entity must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the reporting unit on a reimbursement basis.

**Cash and Cash Equivalents and Investments**

Cash balances reporting in the basic financial statements for the Hospital and the Foundation are maintained in separate accounts and managed by each respective entity.

During fiscal year 2006, the Reporting Unit had investments in common stock, mutual funds, government securities, certificates of deposits, and bank accounts. Investments are reported at fair value which is based on quoted market prices.

Cash and investments with a maturity of three months or less at the time they are purchased by the Reporting Unit are considered to be cash equivalents.

Gains and losses on investments, both realized and unrealized, are included in income for unrestricted net assets.

Interest and dividends on investments are included in non-operating income when earned.

**Patient Accounts Receivable and Revenue**

Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

# **Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit)**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005**

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In 2006 and 2005, approximately 31% and 33%, respectively, of the Hospital's gross patient revenue was derived from Medicare payments while 10% in both 2006 and 2005 was derived from Medicaid payments. Additionally, approximately 20% of the Hospital's total patient revenue was derived from individual self-payments in 2006 and 18% in 2005. The remaining revenue was derived primarily from commercial insurance payments.

### **Inventories**

Inventories are presented at the lower of cost or market on a first-in-first out basis and are expensed when used.

### **Assets Limited as to Use**

Assets limited as to use consist of invested funds designated by the Board of Trustees for future capital improvements, funds invested in accordance with agreements with a third-party, and funds held by trustees under indenture agreements.

### **Capital Assets**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Reporting Entity maintains a capitalization threshold of five hundred dollars. The Reporting Entity does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment under a capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

### **Charity Care**

The Hospital maintains a policy whereby care is provided to patients who meet certain criteria without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Reporting Entity applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**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 those estimates.

**3. DEPOSITS AND INVESTMENTS**

Joel Pomerene Memorial Hospital

The classification of cash and cash equivalents, assets whose use is limited, and investments on the financial statements differs from criteria set forth in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements". A reconciliation between the general fund classifications of cash and cash equivalents, assets whose use is limited and investments on the financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Assets whose use is limited
Financial statements	\$ 1,360,271	\$ 6,598,365
Cash deposits	3,764,751	(3,764,751)
Certificates of deposit	2,434,365	(2,434,365)
Construction deposits	43,270	(43,270)
Cash on hand	(600)	-
GASB Statement 3 Deposits	\$ 7,602,057	\$ 355,979

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

**Deposits-** At December 31, 2006, the carrying amount of the Hospital's deposits for all funds is \$7,602,057 as compared to bank balances of \$7,809,862. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, \$406,084 is covered by Federal insurance programs and \$7,403,778 is collateralized with securities held by the financial institution or by its trust departments or agent but no in the Hospital's name.

**Investments-** Investments of the Hospital are reported at fair value. As of December 31, 2006 the Hospital had the following investments:

<u>Investment/Market Rating</u>			<u>Entity</u>	<u>Fair Value</u>	<u>Maturities in years (less than 1)</u>	<u>As part of Total Investments</u>
<u>Moody's</u>	<u>S&amp;P</u>	<u>Morning Star</u>				
N/A-1	N/A-1	N/A-1	Commerical Savings Bank Common Stock	\$ 162,944	N/A-3	45.8%
N/A-1	N/A-1	N/A-1	Killbuck Savings Bank Common Stock	179,415	N/A-3	50.4%
	B		Newell-Rubbermaid Common Stock	5,790	N/A-3	1.6%
N/A-2	N/A-2	N/A-2	U.S. Treasury Bonds	7,830	7,830	2.2%
				<u>\$ 355,979</u>	<u>\$ 7,830</u>	<u>100.0%</u>

N/A-1: Common Stock not publicly traded.

N/A-2: Exempt from ratings since explicitly guaranteed by a U.S. Government Agency

N/A-3: Stock investments, no maturity period to report

**Interest rate risk** - The Ohio Revised Code has established criteria for the type of investments the Hospital may purchase. The Hospital's investment policy has indicated that all investments must abide by these rules. The policy also specifically states that any investment must mature within five years, unless matched to a specific obligation or debt of the Hospital. The Hospital's investment policy also states that no investment will be made unless the Board of Trustees reasonably believes at the time the investment is made that the investment can be held until maturity. However, an investment may be sold prior to maturity if the Board of Trustees determines that such sale is prudent.

**Credit risk** - The Hospital's investment credit or market ratings are summarized above.

**Concentration of credit risk** - The Board of Trustees places no limit on the amount the Hospital may invest in any one issuer. See the table above for the percentage of investments as compared to the total of all investments.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

Joel Pomerene Foundation

The classification of cash and cash equivalents and investments on the financial statements differs from criteria set forth in GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements". A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
Financial Statement	\$ 768,583	\$ 770,161
Certificates of deposit	40,000	(40,000)
Money Market	1,796	(1,796)
GASB Statement No. 3 Deposits	\$ 810,379	\$ 728,365

**Deposits-** At year-end the carrying amount of the Foundation's deposits was \$810,379 and the bank balance was \$813,998, of which \$167,171 was covered by federal depository insurance. The remaining \$646,827 is collateralized by the financial institution.

**Investments-** Investments of the Foundation are reported at fair value. It is the general policy of the Foundation Board to preserve the principal and to use the income, in whole or in part, for the benefit of the Hospital and the community. Therefore, the investment plan of the Foundation will be to invest in securities which produce long-term gain, and the assets will be selected more on the basis of long-term growth potential than short-term gain. As of December 31, 2006 the Foundation had the following investments:

Investment/Market Rating

Moody's	S&P	Morning Star	Entity	Fair Value	Maturities in years (less than 1)	Maturities in years (1-5)	As part of Total Investments
Aaa	AAA		FNM Bank	\$ 219,020	\$ 24,578	\$ 194,442	30.1%
Aaa	AAA		Freddie Mac notes	69,519	39,744	29,775	9.5%
Aaa	AAA		FHL Bank	178,934	114,546	64,388	24.6%
Aaa	AAA		GE Capital Corp Notes	59,120	49,237	9,883	8.1%
		***	Federated Mutual Funds-Equity	12,054	12,054	-	1.7%
		***	Fidelity Mutual Funds-Equity	51,865	51,865	-	7.1%
		***	T. Row Price Small Cap Stock	82,927	N/A-2	N/A-2	11.4%
	AAA		Vanguard Mutual Funds - Equity	14,814	14,814	-	2.0%
N/A	N/A	N/A	Edward Jones	15,116	15,116	-	2.1%
N/A-1	N/A-1	N/A-1	Ohio Hospital Association Stock	25,000	N/A-2	N/A-2	3.4%
				\$ 728,369	\$ 321,954	\$ 298,488	100.0%

N/A-1: Common Stock not publicly traded.

N/A-2: Stock investments, no maturity period to report

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**Concentration of Credit Risk-** The Foundation's policy is to invest in cash equivalents, equities and debt instruments. The proportion of the portfolio devoted to cash equivalents will depend upon anticipated needs that will be determined by the Foundation during the yearly budget process. Unless otherwise voted upon, the policy shall be to allocate approximately twenty percent or less of the total portfolio to cash equivalents. The remainder of the portfolio is to be managed by an outside fund investment manager in equities, debt instruments and residual cash equivalents. See the table above for the concentration mix of the Foundation's portfolio. Except for obligations of the U.S. Government and its Agencies, no obligation of any issuer is to exceed six and one half percent of the total Foundation holdings. Further, no industry concentration is to exceed twenty percent of the total Foundation's holdings. See the table above of the mix for the Foundations investment portfolio.

**Interest Rate Risk-** The Foundation's policy is to invest in cash equivalents with a maturity of one year or less. Any debt or fixed income instruments will be invested in items with an average maturity not to exceed seven years. Maturities exceeding seven years must be approved by the Foundation Board.

**Credit Risk-** In the cash equivalent portion of the portfolio, the Foundation will assume virtually no credit risk. Only instruments of the highest quality will be included in this part of the portfolio.

Common stocks included in the portfolio are restricted to publicly held companies. These shares of stock should be rated by Moody's Investor's Services, Standard & Poor's, or some other rating authority with a rating of at least "B+" or its equivalent, or if unrated, would otherwise meet these standards. Exceptions to these criteria must be approved by the Foundation's Board. Debt instruments, other than those issued by the U.S. Government and its Agencies, must be rated "A" or better by either Standard and Poor's, Moody's or have an equivalent rating by another rating authority. See the table above for the ratings applicable to each investment.



**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

**4. NET ASSETS**

The Foundation reports net assets disaggregated into restricted and unrestricted components.

The Foundation's restricted net assets for December 31, 2006 is summarized below.

Description	Balance 12/31/2005	Contributions	Released or Expended	Adjustments	Balance 12/31/2006
Restricted net assets					
Capital Campaign:					
-Capital Additions to Joel Pomerene Memorial Hospital	\$ 1,105,110	\$ 66,262	\$ 5,841	\$ -	\$ 1,165,531
Guardianship Program Grant					
-Companionship for the elderly	4,004	2,000	6,004	-	-
Harold B. Miley Grant					
-Nursing Education and Scholarship	404,395	69,372	5,000	-	468,767
Ken Hochstelter Memorial					
- Radiology education	4,848	-	-	-	4,848
Memorials Fund					
- General Memorial Fund	-	275	-	-	275
Stan Boyd Emergency Fund					
- Prescription purchases	2,843	925	704	-	3,064
Donations	-	9,090	-	(9,090)	-
Emergency Medical Fund	-	3,955	2,085	-	1,870
Elisa Galley Estate					
-Elderly/Handicapped parking lot	50,000	-	-	-	50,000
	<u>\$ 1,571,200</u>	<u>\$ 151,879</u>	<u>\$ 19,634</u>	<u>\$ (9,090)</u>	<u>\$ 1,694,355</u>

**5. PATIENT ACCOUNTS RECEIVABLE**

The details of patient accounts receivable are set forth below:

	December 31,	
	2006	2005
Total patient accounts receivable	\$ 8,815,991	\$ 6,218,661
Less allowance for:		
Contractual adjustments	2,220,627	1,105,400
Uncollectible adjustments	1,000,000	940,000
Net patient accounts receivable	<u>\$ 5,595,364</u>	<u>\$ 4,173,261</u>

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**6. PLEDGES RECEIVABLE**

During 2002, the Foundation began a capital campaign to solicit funds in support a building project planned by Joel Pomerene Memorial Hospital. As a part of this campaign, the Foundation received pledges to contribute over the next 5 years. The following schedule summarizes gross pledge support by year in which the receipt is expected.

	December 31,	
	2006	2005
Less than one year	\$ 248,803	\$ 444,389
One to five years	-	74,853
	<u>\$ 248,803</u>	<u>\$ 519,242</u>
Total Pledges Receivable	<u>\$ 248,803</u>	<u>\$ 519,242</u>

As required by generally accepted accounting principles, the Foundation estimated an allowance for uncollectible pledges. The following schedule reconciles gross pledges receivable to the pledges less the allowance for uncollectible accounts.

	December 31,	
	2006	2005
Gross pledges receivable	\$ 248,803	\$ 519,242
Allowance for uncollectible pledges	(79,449)	(115,120)
	<u>\$ 169,354</u>	<u>\$ 404,122</u>
Net Pledges Receivable	<u>\$ 169,354</u>	<u>\$ 404,122</u>

**7. THIRD-PARTY SETTLEMENTS**

The Hospital has agreements with Medicare and Medicaid that provide for reimbursements to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amount reimbursed by third-party payers. The Hospital has reached final settlement with Medicare through 2004 and Medicaid through 2003.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

**8. ASSETS LIMITED AS TO USE**

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use is set forth in the following table.

	December 31	
	2006	2005
Internally designated for future capital improvements		
Cash and cash equivalents	\$ 3,759,011	\$ 3,120,443
Certificate of deposit	2,434,365	3,159,531
Investments in common stock and mutual funds	355,979	356,829
Interest receivable	5,740	3,896
	6,555,095	6,640,699
Funds available for future construction-cash and cash equivalents	43,270	43,270
Total assets limited as to use	\$ 6,598,365	\$ 6,683,969

Funds available for future construction represent the unexpended proceeds from the County of Holmes Hospital Improvement Notes, which were refinanced in 1991.

**9. CAPITAL ASSETS**

Capital assets consist of the following:

<b>Hospital:</b>	12/31/2005	Increase	Decrease	12/31/2006
<b>2006</b>				
Capital assets not being depreciated				
Land	\$ 919,739	\$ 357,998	\$ -	\$ 1,277,737
Construction in progress	82,951	277,872	-	360,823
Total capital assets not being depreciated	1,002,690	635,870	-	1,638,560
Capital assets being depreciated				
Building and fixed equipment	11,561,147	112,230	-	11,673,377
Moveable equipment	10,194,613	711,876	(136,100)	10,770,389
Sub-specialty medical clinic	214,198	-	-	214,198
Modular medical office building	560,323	-	-	560,323
OB/GYN clinic moveable equipment	34,000	-	-	34,000
OB/GYN clinic goodwill	169,583	-	-	169,583
Total capital assets being depreciated	22,733,864	824,106	(136,100)	23,421,870
Less accumulated depreciation	(13,894,107)	(1,375,575)	136,100	(15,133,582)
Total capital assets being depreciated, net	8,839,757	(551,469)	-	8,288,288
Total capital assets, net	\$ 9,842,447	\$ 84,401	\$ -	\$ 9,926,848

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

<b>2005</b>	12/31/2004	Increase	Decreases	12/31/2005
Capital assets not being depreciated				
Land	\$ 910,869	\$ 8,870	\$ -	\$ 919,739
Construction in progress	82,951	-	-	82,951
Total capital assets not being depreciated	993,820	8,870	-	1,002,690
Capital assets being depreciated				
Building and fixed equipment	11,478,372	82,775	-	11,561,147
Moveable equipment	10,658,842	1,462,630	(1,926,859)	10,194,613
Sub-specialty medical clinic	214,198	-	-	214,198
Modular medical office building	560,323	-	-	560,323
OB/GYN clinic moveable equipment	-	34,000	-	34,000
OB/GYN clinic goodwill	-	169,583	-	169,583
Total capital assets being depreciated	22,911,735	1,748,988	(1,926,859)	22,733,864
Less accumulated depreciation	(14,513,339)	(1,307,627)	1,926,859	(13,894,107)
Total capital assets being depreciated, net	8,398,396	441,361	-	8,839,757
Total capital assets, net	\$ 9,392,216	\$ 450,231	\$ -	\$ 9,842,447

<b>Foundation:</b>	12/31/2005	Increase	Decreases	12/31/2006
<b>2006</b>				
Capital assets being depreciated				
Equipment	\$ 10,702	\$ -	\$ -	\$ 10,702
Total capital assets being depreciated	10,702	-	-	10,702
Less accumulated depreciation	(7,492)	(2,140)	2,142	(7,490)
Capital assets, net	\$ 3,210	\$ (2,140)	\$ 2,142	\$ 3,212

<b>2005</b>	12/31/2004	Increase	Decreases	12/31/2005
Capital assets being depreciated				
Equipment	\$ 10,702	\$ -	\$ -	\$ 10,702
Total capital assets being depreciated	10,702	-	-	10,702
Less accumulated depreciation	(7,492)	(2,140)	-	(9,632)
Capital assets, net	\$ 3,210	\$ (2,140)	\$ -	\$ 1,070

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

**10. LEASES**

The Hospital has entered into various non-cancelable capital lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 2.8% to 4.4%. They expire at various times through 2009 and are collateralized by the equipment leased.

	December 31	
	2006	2005
Cost of equipment under capital lease	\$ 599,699	\$ 378,068
Less: Accumulated Depreciation	239,053	141,049
Net carrying amount	\$ 360,646	\$ 237,019

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2006. Operating lease expense totaled \$418,895 in 2006 and \$386,096 in 2005.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. The lease expired March 1, 2005, at which time the Hospital exercised the option to begin renewing the lease on an annual basis up to an additional four years. Office lease expense totaled \$236,745 in 2006 and \$208,163 in 2005.

Effective April 27, 2004, the Hospital signed a ten-year lease agreement for a medical facility in Berlin, Ohio. The lease expires in 2014 with the option to lease for additional three year terms. Lease expense was \$65,295 in 2006 and 2005.

Minimum payments on these obligations to maturity as of December 31, 2006 are as follows:

	Capital Leases	Operating Lease	Total
2007	\$ 162,260	\$ 65,295	\$ 227,555
2008	112,471	65,295	177,766
2009	31,110	65,295	96,405
2010	-	65,295	65,295
2011	-	65,295	65,295
2012-2016	-	152,355	152,355
Total payments	305,841	478,830	784,671
Less amount representing interest	10,037	-	10,037
Total	\$ 295,804	\$ 478,830	\$ 774,634

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2006. The current rates and terms offered to the hospital are comparable to the weighted average interest rates and terms of the current outstanding long-term debt and capital leases.

## 11. CHARITY CARE

The Hospital provides medical care without charge, or at a reduced cost, to residents of its community, primarily through (1) services provided at no charge to the uninsured; (2) the difference between public programs' payments (primarily Medicare and Medicaid) and the related costs of providing such services; and (3) the services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for service and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy are approximately \$1,233,000 and \$1,121,000 in 2006 and 2005, respectively.

## 12. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payer arrangements that provide fixed payments to the Hospital at amounts different than its established rates. Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2006 and 2005 are as follows:

	Year Ended December 31	
	<u>2006</u>	<u>2005</u>
Gross patient service revenue	\$ 47,045,115	\$ 41,356,218
Revenue deductions:		
Provision for contractual allowances	16,405,359	14,871,498
Bad debts	1,227,760	926,461
Charity	1,232,679	1,120,785
Total revenue deductions	<u>18,865,798</u>	<u>16,918,744</u>
Total net patient service revenue	<u>\$ 28,179,317</u>	<u>\$ 24,437,474</u>

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 13. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. OPERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

#### Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employees are 13.7% and 9.0%, respectively. The Hospital's contributions to OPERS for the years ended December 31, 2006, 2005 and 2004 were approximately \$1,382,000, \$1,379,000 and \$1,290,000.

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2006 and 2005 employer contribution rates of 13.7% used to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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The investment return assumption rate for 2005 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

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

Hospital contributions made to fund post-employment benefits approximated \$454,000 and \$407,000 for 2006 and 2005, respectively.

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

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

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

#### 14. ADVERTISING

The Hospital expenses advertising cost as they are incurred. Advertising expense was \$183,007 and \$122,093 for 2006 and 2005, respectively. Advertising expenses are included in operating expenses in the financial statements.



**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**15. MEDICAL MALPRACTICE CLAIMS**

The Hospital has purchased occurrence-based insurance to protect itself against losses from medical malpractice claims. The policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits of \$1,000,000 per individual claims and \$3,000,000 in the annual aggregate.

**16. RELATED ORGANIZATION**

The Northeast Ohio Health Outreach Network (Network) is controlled by four area hospitals, one of which is Joel Pomerene Memorial Hospital. The Network was established to receive federal grant monies from the U.S. Department of Housing and Urban Development (HUD). Funds are distributed to the Hospital directly from HUD as determined by the Network. Changes in unrestricted net assets for 2006 and 2005 resulted from the following:

	<u>Beginning Balance</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ending Balance</u>
2006	\$ 104,153	\$ -	\$ -	\$ 104,153
2005	\$ 135,680	\$ -	\$ 31,527	\$ 104,153

**17. COMMITMENTS**

The Hospital is involved in various pending claims and lawsuits. In the opinion of the Hospital's management, after consultation with legal counsel, the potential for loss on the claims and lawsuits will not materially effect the Hospital's financial position.

**18. RELATED PARTY TRANSACTIONS**

In 2005, Joel Pomerene Memorial Hospital began leasing a group of employees from Health Professional of Holmes County, Inc., which is wholly owned by the Joel Pomerene Foundation. The Hospital made payments totaling \$1,311,200 and \$252,640 to Health Professionals of Holmes County, Inc. in 2006 and 2005, respectively.

**Joel Pomerene Memorial Hospital and  
Joel Pomerene Foundation (Component Unit)**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

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**19. INCOME GRANTS AND FORGIVENESS OF EDUCATIONAL LOANS**

As part of the hospitals recruitment program for new physicians, the Hospital offers income grants and forgiveness of education loans in exchange for a commitment to a minimum term of service. As of December 31, 2006 and 2005, the loan receivable in connection with these income grants and forgiveness of educations loans was \$258,045 and \$453,381, respectively. The loans will be forgiven over time as physicians fulfill their committed term of service. \$222,624 is anticipated to be forgiven in 2007. For the years ended December 31, 2006 and 2005 the Hospital forgave \$202,730 and \$346,480, respectively, in connection with these loan receivables.

**JOEL POMERENE MEMORIAL HOSPITAL**

**AND**

**JOEL POMERENE FOUNDATION  
(COMPONENT UNIT)**

**REPORT LETTERS**

**DECEMBER 31, 2006**



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## **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**

To The Board of Trustees  
 Joel Pomerene Memorial Hospital  
 Millersburg, Ohio

We have audited the financial statements of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio and Joel Pomerene Foundation (Component Unit) (collectively, the Hospital) as of and for the year ended December 31, 2006, and have issued our report thereon dated April 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

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

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

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

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated April 19, 2007.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on it.

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

*Blue & Co., LLC*

April 19, 2007

**Joel Pomerene Memorial Hospital  
Schedule of Findings and Responses  
December 31, 2006**

**2006 – 1: Controls over non-routine and nonsystematic transactions**

Adjustments were necessary to record capital leases which represent non-routine transactions for the Hospital. We recommend that the Hospital implement policies to ensure unusual and non-routine transactions are accounted for in accordance with prescribed accounting principles at the time they occur. If the Hospital has questions concerning these types of transactions during the year we welcome the opportunity to discuss these matters and to assist in addressing them.

**Management's Response:**

We will consult with the auditors to address non-routine and nonsystematic transactions to ensure that these transactions are addressed during the year and that they are accounted for in accordance with prescribed accounting principles.



Mary Taylor, CPA  
Auditor of State

JOEL POMERENE MEMORIAL HOSPITAL  
HOLMES 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 5, 2007