

# **Joel Pomerene Memorial Hospital**

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*Combined Financial Statements*

***December 31, 2011 and 2010***





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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.

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

Dave Yost  
Auditor of State

July 5, 2012



**JOEL POMERENE MEMORIAL HOSPITAL**

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Rea & associates  
*a brighter way*

May 9, 2012

To Board of Trustees  
Joel Pomerene Memorial Hospital  
981 Wooster Road  
Millersburg, OH 44654

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying combined balance sheet of Joel Pomerene Memorial Hospital (the Hospital), a business-type activity of Holmes County, Ohio, as of December 31, 2011, and the combined statement of operations and changes in net assets and combined statement of cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of the Hospital for the year ended December 31, 2010 were audited by other auditors, whose report, dated April 28, 2011, expressed an unqualified opinion on those statements.

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 the Hospital, a business-type activity of Holmes County, Ohio and are not intended to present fairly the financial position of Holmes County, Ohio and the changes in financial position and cash flows of its business-type activities in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011, and the combined results of operations, changes in net assets and the 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 our report dated May 9, 2012 on our consideration of the Hospital's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

*Rea & Associates, Inc.*



**JOEL POMERENE MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis**

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The discussion and analysis of the combined financial statements for Joel Pomerene Memorial Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. The intent of this discussion and analysis is to provide further information on the Hospital'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**

- Net assets decreased \$5,050 from \$22,919,888 at December 31, 2010 to \$22,914,838 at December 31, 2011.
- Operating loss was \$680,415 for 2010 and \$71,594 for 2011.
- Net accounts receivable decreased \$46,499 from \$4,026,348 at December 31, 2010 to \$3,979,849 at December 31, 2011. Net days in accounts receivable changed from 51 at December 31, 2010 to 49 at December 31, 2011.
- From December 31, 2010 to December 31, 2011, total assets decreased \$50,842; total liabilities decreased \$45,792 and current liabilities increased \$128,704.
- Net cash flows provided from operating activities were \$1,075,164 during 2010 and \$1,460,782 during 2011.

**Using This Annual Report**

The Hospital's financial statements consist of three statements - a balance sheet; a statement of operations and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributions, grantors, or enabling legislation.

Joel Pomerene Memorial Hospital (the Hospital), a business-type activity 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.

The combined 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.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis**

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net assets report information about the Hospital's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all 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 Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

**The Statement of Cash Flows**

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

**The Hospital's Net Assets**

Pomerene Hospital's net assets were \$23,539,510, \$22,919,888 and \$22,914,838 in 2009, 2010, and 2011, respectively. Table 1 provides a summary of the Hospitals total net assets for 2011 compared to 2010 and 2009.

	Table 1 Net Assets		
	2011	2010	2009
Assets			
Current Assets	\$ 7,817,704	\$ 7,062,388	\$ 5,964,482
Assets Whose Use is Limited	5,909,993	6,019,720	6,944,679
Other Assets	0	0	131,018
Capital Assets	12,488,310	13,184,741	14,015,025
Total Assets	26,216,007	26,266,849	27,055,204
Liabilities:			
Current Liabilities	2,061,626	1,932,922	2,157,761
Long-Term Liabilities	1,239,543	1,414,039	1,357,933
Total Liabilities	3,301,169	3,346,961	3,515,694
Net Assets			
Capital Assets, Net of Related Debt	11,027,272	11,569,539	12,485,499
Restricted	733,368	731,290	667,380
Unrestricted	11,154,198	10,619,059	10,386,631
Total Net Assets	\$ 22,914,838	\$ 22,919,888	\$ 23,539,510

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis**

The Hospital transfers excess cash to assets limited as to use. The assets limited as to use at the end of 2011 were \$5,909,993 compared to \$6,019,720 and \$6,944,679 at the end of 2010 and 2009, respectively.

The primary change in the Hospital's net assets is its income (loss) from operations – the difference between total operating revenues and total operating expenses incurred to perform those services. In fiscal year 2011, the Hospital experienced a loss from operations of \$71,594, following the previous year's loss from operations of \$680,415. The primary contribution to the fiscal year 2011 loss from operations was an increase in operating expenses, offset by an increase in patient revenue. Total operating expenses increased 1.0%, or \$296,057 and operating revenue increased 3.0% or \$904,878. The most significant increases included salaries and wages of approximately \$463,233, offset by a decrease in supplies and depreciation expense.

**Operating Results and Changes in the Hospital's Net Assets**

Table 2 shows the changes in revenues and expense for 2011 compared to 2010 and 2009

Table 2  
Revenues and Expenses

	2011	2010	2009
Revenue			
Net Patient Service Revenue	\$ 29,852,231	\$ 29,012,626	\$ 29,097,896
Other Revenues	925,465	860,192	783,781
Total Revenue	<u>30,777,696</u>	<u>29,872,818</u>	<u>29,881,677</u>
Operating Expenses			
Salaries and Wages	12,526,306	12,063,073	12,521,889
Employee Benefits	3,361,570	3,383,354	3,577,729
Supplies and Other	8,279,098	8,343,295	7,711,183
Medical Professional Fees	5,298,383	5,261,701	5,326,386
Physician Recruiting	0	0	94,008
Depreciation	1,357,732	1,493,526	1,774,954
Other	26,201	8,284	20,768
Total Expenses	<u>30,849,290</u>	<u>30,553,233</u>	<u>31,026,917</u>
Operating Income (Loss)	(71,594)	(680,415)	(1,145,240)
Non-Operating Income	44,416	58,669	116,791
Change in Fair Value of Investments	22,128	2,124	53,952
Change In Net Assets	<u>\$ (5,050)</u>	<u>\$ (619,622)</u>	<u>\$ (974,497)</u>

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis**

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**Net Patient Service Revenues**

Compared to 2010, net patient service revenues increased \$839,605 in 2011.

For fiscal year 2011, the Hospital Board of Trustees approved a price increase of 5%. Inpatient admissions decreased 4% and outpatient registrations increased 3%.

**Deductions from Revenue**

Deductions from revenue expressed as a percentage of gross revenues were 51% in 2011 and 50% in 2010.

Charity care for 2011 increased 15% when compared to 2010 levels. In the 1980's the State of Ohio developed a program designed to help hospitals 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 2011, Pomerene Hospital's HCAP distribution was \$144,078 more than its assessment, compared to \$162,836 in 2010.

**Operating Expenses**

Total operating expenses in 2011 increased from 2010 levels by \$296,057 or 1.0%.

**Salary & Wages**

Total full time equivalents increased 1.4% from 2010 to 2011.

**Employee Benefits**

The amounts paid relating to employee benefits for the Hospital decreased \$22,009 from 2010 to 2011.

**Supplies**

Supplies decreased \$63,972 in 2011 when compared to 2010.

**Medical and Professional Fees**

Medical and professional fees increased \$36,682 in 2011 when compared to 2010.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of investment income and changes in fair value of investments.

**The Hospital's Cash Flows**

The Hospital has positive cash flow of \$711,862 in 2011.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis**

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**Capital Assets**

Business-type capital assets decreased from \$13,184,741 in 2010 to \$12,488,310 in 2011. The decrease relates to \$1,357,732 in depreciation expense, offset by \$661,301 in capital additions. Major capital additions include the purchase of computer equipment and anesthesia machines.

**Debt**

At December 31, 2011, the Hospital had \$1,461,039 in outstanding borrowings under notes payable and capital leases. In 2011, the Hospital entered into two capital leases for \$55,068. In 2010, the Hospital entered into a capital lease for \$269,349. The Hospital has a notes payable outstanding for \$1,075,000 which contains certain restrictive covenants that the Hospital was in compliance with at December 31, 2011.

**Other Economic Factors**

The Hospital's Board and management considered many factors when setting the 2011 budget. Of primary importance in setting the budget was the status of the local economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations of quality improvements
- Advances in medical equipment technology and the need to replace obsolete equipment
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Holmes County, continuous quality improvement, cost control, and capital requirements.

**The 2012 Operating Budget**

The Board of Trustees approved the 2012 Operating Budget at its November 2011 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 2012 budget has 2% lower net revenues compared to 2011

The 2012 Hospital only budget calls for operating gain of \$685,878 or a 2.5% operating margin.

**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 the Chief Financial Officer at 981 Wooster Road, Millersburg, Ohio 44654.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**COMBINED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2011 AND 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 2,277,582	\$ 1,438,137
Investments	684,929	702,785
Patient Accounts Receivable, Net of Uncollectible Accounts of \$1,890,500 in 2011 and \$1,982,000 in 2010	3,979,849	4,026,348
Pledges Receivable, Less Allowance For Uncollectible Pledges	0	9,000
Inventories	510,682	541,297
Estimated Third-Party Settlements	0	63,582
Prepaid Expenses and Other Assets	364,662	281,239
Total Current Assets	<u>7,817,704</u>	<u>7,062,388</u>
<b>NON CURRENT ASSETS:</b>		
Assets Limited as to Use	5,909,993	6,019,720
Capital Assets, Net of Depreciation	<u>12,488,310</u>	<u>13,184,741</u>
Total assets	<u>\$ 26,216,007</u>	<u>\$ 26,266,849</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 537,997	\$ 478,485
Accrued Salaries, Wages and Employee Benefits	1,256,171	1,201,480
Other Accrued Expenses	45,962	51,794
Current Portion of Long Term Debt and Leases	221,496	201,163
Total current liabilities	<u>2,061,626</u>	<u>1,932,922</u>
LONG-TERM DEBT, NET OF CURRENT PORTION	<u>1,239,543</u>	<u>1,414,039</u>
Total liabilities	3,301,169	3,346,961
<b>NET ASSETS:</b>		
Capital Assets, Net of Related Debt	11,027,272	11,569,539
Restricted by Donor For Specific Uses	733,368	731,290
Unrestricted	<u>11,154,198</u>	<u>10,619,059</u>
Total net assets	<u>22,914,838</u>	<u>22,919,888</u>
Total Liabilities and Net Assets	<u>\$ 26,216,007</u>	<u>\$ 26,266,849</u>

See accompanying notes to the combined financial statements.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>REVENUE:</b>		
Net Patient Service Revenue	\$ 29,852,231	\$ 29,012,626
Other Operating Revenue	925,465	860,192
Total Revenue	<u>30,777,696</u>	<u>29,872,818</u>
<b>EXPENSES:</b>		
Salaries and Wages	12,526,306	12,063,073
Employee Benefits	3,361,570	3,383,579
Supplies and Other	8,279,098	8,343,070
Medical Professional Fees	5,298,383	5,261,701
Depreciation	1,357,732	1,493,526
Other	26,201	8,284
Total Expenses	<u>30,849,290</u>	<u>30,553,233</u>
OPERATING INCOME (LOSS)	(71,594)	(680,415)
<b>NON-OPERATING GAINS</b>		
Non-Operating Income, Net	44,416	58,669
Change in Fair Value of Investments	22,128	2,124
Total Non-Operating Gains	<u>66,544</u>	<u>60,793</u>
CHANGE IN NET ASSETS	(5,050)	(619,622)
NET ASSETS, BEGINNING OF YEAR	<u>22,919,888</u>	<u>23,539,510</u>
NET ASSETS, END OF YEAR	<u>\$ 22,914,838</u>	<u>\$ 22,919,888</u>

See accompanying notes to the combined financial statements.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Patients and Third-Party Payors	\$ 29,962,312	\$ 29,162,125
Cash Paid to Suppliers for Services and Goods	(13,602,810)	(13,524,808)
Cash Paid to Employees and for Related Benefits	(15,833,185)	(15,435,317)
Other Operating Revenue Received	934,465	873,164
Net Cash Provided By Operating and Nonoperating Activities	1,460,782	1,075,164
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisitions and Construction of Capital Assets	(606,233)	(395,593)
Proceeds From Sale of Capital Asset	0	850
Principal Payments on Capital Leases	(159,231)	(133,673)
Principal Payments on Long Term Debt	(50,000)	(50,000)
Net Cash Used in Capital and Related Financing Activities	(815,464)	(578,416)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on Investments	44,416	58,669
Change in Fair Value of Investments	22,128	2,124
Net Cash Provided By Investing Activities	66,544	60,793
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	711,862	557,541
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	8,160,642	7,603,101
<b>CASH AND CASH EQUIVALENTS, End of year</b>	\$ 8,872,504	\$ 8,160,642
<b>Cash and Cash Equivalents Include the Following:</b>		
Cash and equivalents	\$ 2,277,582	\$ 1,438,137
Investment Cash and Cash Equivalents	684,929	702,785
<b>Assets Limited as to Use Cash and Cash Equivalents:</b>		
Board Designated for Future Capital Improvements	5,850,297	5,960,198
Funds Available for Future Construction and Equipment	59,696	59,522
Total Cash and Cash Equivalents	\$ 8,872,504	\$ 8,160,642
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Capital Assets Acquired Under Capital Leases	\$ 55,068	\$ 269,349
<b>A Reconciliation of the Loss From Operations to Net Cash Flows Provided by Operating Activities is as Follows:</b>		
Loss From Operations	\$ (71,594)	\$ (680,415)
<b>Adjustments to Reconcile Loss From Operations to Net Cash Provided by Operating Activities:</b>		
Depreciation	1,357,732	1,493,526
Loss on Sale of Capital Asset	0	850
<b>Changes in Assets and Liabilities:</b>		
(Increase) Decrease in Patient Accounts Receivable	46,499	213,081
(Increase) Decrease in Pledges Receivable	9,000	12,122
(Increase) Decrease in Inventories	30,615	43,382
(Increase) Decrease in Prepaid Expenses and Other Assets	(83,423)	310,609
Increase (Decrease) in Accounts Payable	59,512	(92,271)
Increase (Decrease) in Accrued Expenses	48,859	(162,138)
Increase (Decrease) in Third-Party Settlements	63,582	(63,582)
Net Cash Provided by Operating Activities	\$ 1,460,782	\$ 1,075,164

See accompanying notes to the combined financial statements.



**JOEL POMERENE MEMORIAL HOSPITAL**  
**Notes to Combined Financial Statements**  
**December 31, 2011 and 2010**

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1. NATURE OF OPERATIONS

The accompanying combined financial statements include the accounts of Joel Pomerene Memorial Hospital (the Hospital) and its subsidiary, Joel Pomerene Foundation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

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 in the Holmes County Board of Commissioners who, together with the Probate and Common Pleas Court Judges, appoints 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 financial statements are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Holmes County that is attributable to the transactions of Joel Pomerene Memorial Hospital. They do not purport to, and do not, present fairly the financial position of Holmes County, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Joel Pomerene Foundation (the 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 blended 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 is in turn leased directly to the Hospital.

The Foundation and Health Professionals of Holmes County, Inc. have been granted an exemption from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification that do not conflict with or contradict GASB pronouncements.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Notes to Combined Financial Statements**  
**December 31, 2011 and 2010**

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Measurement Focus

The combined financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Organization are included on the combined balance sheet.

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

During fiscal year 2011 the Organization had investments in common stock, mutual funds, government securities and corporate notes. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) is included in nonoperating gains (losses) unless the income or loss is restricted by donor or law.

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.

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

Inventories

Inventories consist of surgical, pharmaceutical, and medical supplies and are presented at the lower of cost or market on a first-in first-out basis.

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 donor restricted funds.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Notes to Combined Financial Statements**  
**December 31, 2011 and 2010**

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Capital Assets

All capital assets are capitalized at 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 Organization maintains a capitalization threshold of five hundred dollars. 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 expensed as incurred.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Improvements are depreciated over the useful lives of the related capital assets. Equipment under 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.

Federal Income Tax

The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

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 Organization 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 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.

**JOEL POMERENE MEMORIAL HOSPITAL**  
**Notes to Combined Financial Statements**  
**December 31, 2011 and 2010**

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Assets measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 239,322	\$ 0	\$ 0	\$ 239,322
Equity Securities	332,769	0	25,000	357,769
United States Government Obligations	0	59,161	0	59,161
Corporate Notes	0	10,067	0	10,067
Total	<u>\$ 572,091</u>	<u>\$ 69,228</u>	<u>\$ 25,000</u>	<u>\$ 666,319</u>

Assets measured at fair value on a recurring basis as of December 31, 2010 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 246,586	\$ 0	\$ 0	\$ 246,586
Equity Securities	302,811	0	25,000	327,811
United States Government Obligations	0	8,136	0	8,136
Corporate Notes	0	46,617	0	46,617
Total	<u>\$ 549,397</u>	<u>\$ 54,753</u>	<u>\$ 25,000</u>	<u>\$ 629,150</u>

The Organization records its investment in non-public equity securities based on its percentage ownership of the net asset value as reported to the Organization on an annual basis. In addition, the Organization monitors the overall financial performance by reviewing the non-public company's financial statements and other information on an ongoing basis.

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A reconciliation of activity for 2011 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

Balance, Beginning of Year	\$ 25,000
Realized and Unrealized gains (losses) included in earnings	<u>0</u>
Balance, End of Year	<u><u>\$ 25,000</u></u>

A reconciliation of activity for 2010 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

Balance, Beginning of Year	\$ 25,000
Realized and Unrealized gains (losses) included in earnings	<u>0</u>
Balance, End of Year	<u><u>\$ 25,000</u></u>

**4. DEPOSITS AND INVESTMENTS**

At December 31, 2011 and 2010, the carrying amount of the Organization's bank deposits for all funds was \$8,206,185 and \$7,531,492 respectively; and the bank balance was \$8,344,941 and \$7,679,779, respectively. Of the bank balance, \$1,408,833 and \$1,210,838 at December 31, 2011 and 2010, 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 Organization's name, \$6,936,107 and \$6,239,916, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Organization's name. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

**Investments** -Investments of the Organization are reported at fair value. As of December 31, 2011 and 2010 the Organization had the following investments:

	December 31, 2011		December 31, 2010	
	Cost	Market	Cost	Market
Cash and Cash Equivalents	\$ 6,319,340	\$ 6,319,340	\$ 5,491,314	\$ 5,491,314
Certificates of Deposit	2,023,143	2,025,601	2,036,987	2,040,178
U. S. Government Obligations	60,895	59,161	4,976	8,136
Mutual Funds	253,552	239,322	246,836	246,586
Corporate Notes	10,007	10,067	45,248	46,617
Equity Securities	75,866	332,769	75,866	327,811
Total	<u>\$ 8,742,803</u>	<u>\$ 8,986,260</u>	<u>\$ 7,901,227</u>	<u>\$ 8,160,642</u>

**JOEL POMERENE MEMORIAL HOSPITAL**  
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**Interest rate risk** -The Ohio Revised Code has established criteria for the type of investments the Hospital may purchase. The Organization'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 Organization. The Organization'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 Organization's investment credit or market ratings are summarized below:

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
N/A - 1	N/A - 1	N/A - 1	Commercial Savings Bank Common Stock	\$ 143,648	N/A -3	N/A -3	22.4%
N/A - 1	N/A - 1	N/A - 1	Killbuck Savings Bank Common Stock	179,042	N/A -3	N/A -3	27.9%
N/A - 1	N/A - 1	N/A - 1	Newell-Rubbermaid Common Stock	2,293	N/A -3	N/A -3	0.4%
N/A - 2	N/A - 2	N/A - 2	U. S. Treasury Bonds	59,161	8,136	0	9.2%
Aa2	AA+		GE Capital Corporate Notes	10,067	10,067	0	1.6%
		3 star rating	Federated Mutual Funds-Equity	55,874	N/A -3	N/A -3	8.7%
		3 star rating	Fidelity Mutual Funds-Equity	25,807	N/A -3	N/A -3	4.0%
		3 star rating	T. Rowe Price Mutual Funds-Equity	84,765	N/A -3	N/A -3	13.2%
		3 star rating	Vanguard Mutual Funds-Equity	80,662	N/A -3	N/A -3	12.6%
Total				\$ 641,319	\$ 18,203	\$ 0	100.0%

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

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

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**5. RESTRICTED NET ASSETS**

The Foundation reports net assets disaggregated into restricted and unrestricted components. The Foundation's restricted net assets for December 31, 2011 is summarized below.

	<u>Balance</u> <u>12/31/2010</u>	<u>Contributions</u>	<u>Released or</u> <u>Expended</u>	<u>Adjustments</u>	<u>Balance</u> <u>12/31/2011</u>
Restricted Net Assets:					
Capital Campaign					
-Capital Additions to Joel Pomerene Memorial Hospital	\$ 169,287	\$ 10,152	\$ 7,648	\$ 12,906	\$ 184,697
Harold B. Miley Grant					
-Nursing Education and Scholarship	498,377	0	17,337	0	481,040
Ken Hochstelter Memorial					
-Radiology Education	4,720	0	0	0	4,720
Lori Clark Memorial					
-Nursing Education and Scholarship	0	2,684	0	0	2,684
Memorials Fund					
-General Memorial Fund	670	0	0	0	670
Stan Boyd Emergency Fund					
-Prescription Purchases	3,186	0	245	0	2,941
OB Lifting Hearts					
-Bereavement Program	141	252	163	0	230
OB Memory Garden					
-Bereavement Memory Garden	4,138	2,346	72	0	6,412
Emergency Medical Fund					
-Prescription Purchases	771	300	1,097	0	(26)
Elisa Gailey Estate					
-Elderly/Handicapped Parking Lot	50,000	0	0	0	50,000
Total	<u>\$ 731,290</u>	<u>\$ 15,734</u>	<u>\$ 26,562</u>	<u>\$ 12,906</u>	<u>\$ 733,368</u>

The Foundation's restricted net assets for December 31, 2010 is summarized below.

	<u>Balance</u> <u>12/31/2009</u>	<u>Contributions</u>	<u>Released or</u> <u>Expended</u>	<u>Adjustments</u>	<u>Balance</u> <u>12/31/2010</u>
Restricted Net Assets:					
Capital Campaign					
-Capital Additions to Joel Pomerene Memorial Hospital	\$ 154,487	\$ 14,800	\$ 0	\$ 0	\$ 169,287
Harold B. Miley Grant					
-Nursing Education and Scholarship	453,679	47,457	2,759	0	498,377
Ken Hochstelter Memorial					
-Radiology Education	4,720	0	0	0	4,720
Memorials Fund					
-General Memorial Fund	670	0	0	0	670
Stan Boyd Emergency Fund					
-Prescription Purchases	3,313	0	127	0	3,186
OB Lifting Hearts					
-Bereavement Program	0	341	200	0	141
OB Memory Garden					
-Bereavement Memory Garden	0	4,277	139	0	4,138
Emergency Medical Fund					
-Prescription Purchases	511	1,488	1,228	0	771
Elisa Gailey Estate					
-Elderly/Handicapped Parking Lot	50,000	0	0	0	50,000
Total	<u>\$ 667,380</u>	<u>\$ 68,363</u>	<u>\$ 4,453</u>	<u>\$ 0</u>	<u>\$ 731,290</u>

**JOEL POMERENE MEMORIAL HOSPITAL**  
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6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31,	
	2011	2010
Total Patient Accounts Receivable	\$ 7,898,878	\$ 8,044,367
Less Allowance For:		
Contractual Adjustments	2,028,529	2,336,643
Uncollectible Amounts	1,890,500	1,681,376
Net Patient Accounts Receivable	\$ 3,979,849	\$ 4,026,348

The Hospital provides services without collateral to patients, most of who are local residents and are insured under third-party payor agreements. The composition of revenue and receivables from patients and third-party payors follows:

	December 31, 2011		December 31, 2010	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
	Medicare	11%	22%	13%
Medicaid	11%	14%	16%	14%
Commercial and Other	28%	39%	30%	31%
Self-Pay	50%	25%	41%	29%
Total	100%	100%	100%	100%

7. PATIENT SERVICE REVENUE

The Hospital has agreements with payors that provide for reimbursement 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 service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

*Medicare* -Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.



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*Medicaid* -Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Medicare cost reports have been settled through 2009 and Medicaid cost reports have been settled through 2005.

The Hospital has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payments to the Hospital under these arrangements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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8. CAPITAL ASSETS

Capital asset activity for the year ended December, 31, 2011 was as follows:

	2010	Additions	Retirements	2011
Land	\$ 601,920	\$ 0	\$ 0	\$ 601,920
Land Improvements	976,002	0	0	976,002
Construction in Progress	0	0	0	0
Building and Fixed Equipment	17,831,274	93,961	0	17,925,235
Moveable Equipment	11,352,762	567,340	(145,824)	11,774,278
Sub-Specialty Medical Clinic	214,198	0	0	214,198
Modular Medical Office Building	560,323	0	0	560,323
OB/GYN Clinic	17,000	0	0	17,000
Total Capital Assets	<u>31,553,479</u>	<u>661,301</u>	<u>(145,824)</u>	<u>32,068,956</u>
Less Accumulated Depreciation:				
Land Improvements	605,141	34,089	0	639,230
Building and Fixed Equipment	8,196,669	575,589	0	8,772,258
Moveable Equipment	8,956,382	747,814	(145,824)	9,558,372
Sub-Specialty Medical Clinic	144,157	33	0	144,190
Modular Medical Office Building	449,389	207	0	449,596
OB/GYN Clinic	17,000	0	0	17,000
Total Accumulated Depreciation	<u>18,368,738</u>	<u>1,357,732</u>	<u>(145,824)</u>	<u>19,580,646</u>
Capital Assets, Net	<u>\$ 13,184,741</u>	<u>\$ (696,431)</u>	<u>\$ 0</u>	<u>\$ 12,488,310</u>

Capital asset activity for the year ended December, 31, 2010 was as follows:

	2009	Additions	Retirements	2010
Land	\$ 601,920	\$ 0	\$ 0	\$ 601,920
Land Improvements	786,434	189,568	0	976,002
Construction in Progress	0	0	0	0
Building and Fixed Equipment	17,802,209	29,065	0	17,831,274
Moveable Equipment	10,907,303	445,459	0	11,352,762
Sub-Specialty Medical Clinic	214,198	0	0	214,198
Modular Medical Office Building	560,323	0	0	560,323
OB/GYN Clinic	34,000	0	(17,000)	17,000
Total Capital Assets	<u>30,906,387</u>	<u>664,092</u>	<u>(17,000)</u>	<u>31,553,479</u>
Less Accumulated Depreciation:				
Land Improvements	575,224	29,917	0	605,141
Building and Fixed Equipment	7,610,710	585,959	0	8,196,669
Moveable Equipment	8,082,756	873,626	0	8,956,382
Sub-Specialty Medical Clinic	144,020	137	0	144,157
Modular Medical Office Building	449,184	205	0	449,389
OB/GYN Clinic	29,468	3,683	(16,151)	17,000
Total Accumulated Depreciation	<u>16,891,362</u>	<u>1,493,527</u>	<u>(16,151)</u>	<u>18,368,738</u>
Capital Assets, Net	<u>\$ 14,015,025</u>	<u>\$ (829,435)</u>	<u>\$ (849)</u>	<u>\$ 13,184,741</u>

**JOEL POMERENE MEMORIAL HOSPITAL**  
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9. LONG TERM DEBT

The following is a summary of the Hospital's long-term debt:

	December 31, 2011	
	Notes Payable	Capital Lease
Debt Outstanding January 1, 2011	\$ 1,125,000	\$ 490,202
Additions of New Debt	0	55,068
Repayments	50,000	159,231
Debt Outstanding December 31, 2011	\$ 1,075,000	\$ 386,039
Expected to be Paid Within One Year	\$ 50,000	\$ 171,496
	December 31, 2010	
	Notes Payable	Capital Lease
Debt Outstanding January 1, 2010	\$ 1,175,000	\$ 354,526
Additions of New Debt	0	269,349
Repayments	50,000	133,673
Debt Outstanding December 31, 2010	\$ 1,125,000	\$ 490,202
Expected to be Paid Within One Year	\$ 50,000	\$ 151,163

In 2008, the Hospital obtained a \$1,250,000, unsecured interest-free, loan from Aultman Health Foundation (Aultman), with monthly principal only payments of \$4,167 through July 2033. Aultman has option to call loan in July 2018. Aultman is a related party in that it provides certain management services to the Hospital. Future minimum principal and interest payments follow:

	Note
2012	\$ 50,000
2013	50,000
2014	50,000
2015	50,000
2016	50,000
2017-2018	825,000
Total Payments	\$ 1,075,000

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 0% to 7.9%. They expire at various times through 2016 and are collateralized by the equipment leased.

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The Hospital has entered into operating lease agreements for equipment, including both month-to-month leases and non-cancelable leases that expire at various dates through 2014. Operating lease expense for equipment totaled \$492,272 in 2011 and \$351,346 in 2010.

Effective March 1, 2009, the Hospital signed a five-year lease agreement for office space from Family Properties, Ltd. The lease expires in February 2014 with the option to lease for up to two additional terms of five years each.

Office lease expense totaled \$285,180 and \$285,180 in 2011 and 2010, respectively.

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 \$66,417 and \$65,983 in 2011 and 2010, respectively.

Minimum payments on these obligations to maturity as of December 31, 2011 are as follows:

	Capital Lease	Operating Lease	Total Lease
2012	\$ 191,193	\$ 351,597	\$ 542,790
2013	153,228	351,597	504,825
2014	65,618	69,669	135,287
2015	6,071	0	6,071
2016	1,022	0	1,022
Total Payments	<u>417,132</u>	<u>772,863</u>	<u>1,189,995</u>
Less Amount Representing Interest	31,093	0	31,093
Total Payments	<u>\$ 386,039</u>	<u>\$ 772,863</u>	<u>\$ 1,158,902</u>

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2011. 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.

In addition, the Hospital signed five-year sub-lease agreements with various businesses in the area for this office space. The total amount of rentals to be received in the future under these sub-leases is \$364,737 as outlined below.

	Operating Sub-Lease
2012	\$ 168,340
2013	168,340
2014	28,057
Total Rental Receipts	<u>\$ 364,737</u>

**JOEL POMERENE MEMORIAL HOSPITAL**  
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	December 31,	
	2011	2010
Cost of Equipment Under Capital Lease	\$ 747,718	\$ 993,508
Less: Accumulated Depreciation	114,166	326,400
Net Carrying Amount	\$ 633,552	\$ 667,108

The Hospital is required to meet certain covenants with respect to the Aultman note agreement, including minimum debt service coverage. The Hospital was in compliance with these covenants at December 31, 2011.

**10. 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 were approximately \$2,205,245 and \$1,911,000 in 2011 and 2010, respectively.

**11. 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, 2011 and 2010 are as follows:

	Year Ended December 31,	
	2011	2010
Gross Patient Service Revenue	\$ 58,580,314	\$ 56,964,376
Revenue Deductions:		
Provision for Contractual Allowances	26,357,735	25,793,651
Bad Debts	2,370,348	2,158,099
Total Revenue Deductions	28,728,083	27,951,750
Net Carrying Amount	\$ 29,852,231	\$ 29,012,626

**JOEL POMERENE MEMORIAL HOSPITAL**  
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12. 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 - a defined contribution plan; and the Combined Plan - a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011 and 2010, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

**JOEL POMERENE MEMORIAL HOSPITAL**  
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Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for member in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The portion of employer contributions allocated to healthcare for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

<u>Year</u>	<u>Contribution</u>
2011	\$ 1,563,807
2010	\$ 1,521,000
2009	\$ 1,542,000

The portion of the Hospital's contribution in the above table that was made to fund post-employment health care benefits were approximately \$446,780, \$595,000, and \$647,000 for 2011, 2010, and 2009, respectively.

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

**JOEL POMERENE MEMORIAL HOSPITAL**  
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13. 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.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the past three years, and it has been charged to operations as a current expense.

14. SUBSEQUENT EVENT

On May 26, 2011, the Board of Trustees approved the purchase of land and a building, former location of the Holmes County Health Department, from the Holmes County Commissioners for \$300,000. The purchase of this property will be funded by cash through a lease/purchase agreement with the Joel Pomerene Foundation. This transaction closed on February 27, 2012.





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**INDEPENDENT AUDITOR'S 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**

May 9, 2012

To Board of Trustees  
Joel Pomerene Memorial Hospital  
981 Wooster Road  
Millersburg, OH 44654

We have audited the combined financial statements of Joel Pomerene Memorial Hospital (the Hospital); a business-type activity of Holmes County, Ohio, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 9, 2012. Our report contained additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Holmes County that are attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Holmes County as of December 31, 2011, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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**

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

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

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 did note a certain matter that we reported to management of the Hospital in a separate letter dated May 9, 2012.

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

*Hea & Associates, Inc.*



# Dave Yost • 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  
JULY 19, 2012