JOEL POMERENE MEMORIAL HOSPITAL

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Mary Taylor, CPA
Auditor of State

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

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, 2007 through December 31, 2007. 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

June 26, 2008

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JOEL POMERENE MEMORIAL HOSPITAL

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CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

We have audited the accompanying combined balance sheets of Joel Pomerene Memorial Hospital (the Hospital) a business-type activity of Holmes County, Ohio as of December 31, 2007 and 2006, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the Financial Statements, the Hospital has changed the method of presentation during 2007 from a "discrete" presentation to a "blended" presentation. The change in presentation was in order to comply with the provisions of Statement No. 14, *The Financial Reporting Entity*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Joel Pomerene Hospital. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of Joel Pomerene Hospital. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management 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 and measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

June 20, 2008

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, 2007, 2006, and 2005. 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

- In 2007, total assets increased $1,485,666 over 2006 levels.
- Net accounts receivable decreased $557,605. Net days in accounts receivable were 61, 72, and 62 at December 31, 2007, 2006, and 2005, respectively.
- Total liabilities increased $621,444; current liabilities increased $644,623; other long term liabilities decreased $22,879 from December 31, 2007 to December 31, 2006.
- Net cash provided by operating activities was $517,343, $1,224,761, and 2,421,427 in 2007, 2006, and 2005 respectively.

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 statues 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.

The combined Statement of Operations and Changes in Net Assets and Combined Statements of Cash Flows provide an indication of the Hospital's financial health. The Combined Balance Sheets 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 Combined 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 were $22,578,890, 23,517,072, to $24,381,294 in 2005, 2006, and 2007, respectively. Table 1 provides a summary of the Hospitals Net Assets for 2007 compared to 2006 and 2005.

Table 1
Net Assets

	2007	2006	2005
Assets			
Current assets	$ 7,996,540	$ 9,335,450	$ 7,839,453
Assets whose use is limited	5,076,514	6,598,365	6,683,969
Other assets	481,483	258,045	511,668
Capital assets	14,053,049	9,930,060	9,843,517
Total assets	$ 27,607,586	$ 26,121,920	$ 24,878,607
Liabilities			
Current liabilities	3,108,190	2,463,867	2,182,571
Long-term liabilities	118,102	140,981	117,146
Total liabilities	$ 3,226,292	$ 2,604,848	$ 2,299,717
Net assets			
Capital assets net of related debt	13,778,869	9,634,256	9,647,818
Unrestricted	9,302,353	12,188,461	11,359,872
Restricted	1,300,072	1,694,355	1,571,200
Total net assets	$ 24,381,294	$ 23,517,072	$ 22,578,890

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 2007 were $5,076,514 compared to $6,598,365 and $6,683,969 at the end of 2006 and 2005, respectively.

Capital Assets

Business-type capital assets increased from $9,930,060 to $14,053,049 in 2007. The increase relates to $5,545,149 in capital additions, offset by $1,422,160 in depreciation expense and disposals. Major capital additions include the purchase of land, room renovations and imaging equipment.

Federal Grant

During 2007 the Hospital received a federal grant of approximately $2.0 million for building renovations at the Hospital.

Revenues and Expenses

Table 2 shows the changes in revenues and expense for 2007 compared to 2006 and 2005.

Table 2
Revenues and Expenses

	2007	2006	2005
Revenue			
Net patient service revenue	$ 28,225,934	$ 27,963,695	$ 24,437,474
Other revenues	198,442	475,191	915,931
Total revenue	28,424,376	28,438,886	25,353,405
Operating expenses			
Salaries and wages	12,293,228	11,709,164	10,111,998
Employee benefits	3,318,456	3,278,380	3,160,031
Supplies and other	9,191,826	8,387,242	7,484,722
Medical professional fees	3,690,218	2,494,453	1,824,389
Physical recruiting	351,219	504,852	535,448
Depreciation	1,422,160	1,349,334	1,270,053
Other	25,147	34,389	289,116
Total expenses	30,292,254	27,757,814	24,675,757
Operating income (loss)	(1,867,878)	681,072	677,648
Non operating Income	295,576	307,782	1,285
Federal grant	2,468,975	-	738,119
NE Network Grant expenses	(28,327)	(49,823)	(31,527)
Change in fair value of investments	(4,124)	(849)	17,566
Change in net assets	$ 864,222	$ 938,182	$ 1,403,091

Net Patient Service Revenues

Compared to 2006, net patient service revenues increased $262,239 or 1%.

For fiscal year 2007, the Hospital Board of Trustees approved a price increase of 3.25%. Inpatient admissions were down 2% and outpatient registrations were up 6%.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross revenues were recorded at 46% in 2007, compared to 41% in 2006.

Charity care for 2007 increased 13% when compared to 2006 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 2007, Pomerene Hospital's HCAP distribution was $195,093 more than its assessment, compared to $385,711 in 2006.

Operating Expenses

Total operating expenses in 2007 exceeded the 2006 levels by $2,534,440 or 9%.

Salary & Wages

To remain competitive in the market place, the Board of Trustees approved hourly/salary pay adjustments as part of the 2007 Operating Budget. The market driven adjustment totaled approximately $10,000 or .05%.

Total FTEs decreased 3% from 2006 to 2007.

Employee Benefits

The amounts paid relating to employee benefits for the Hospital decreased $40,076 from 2006 to 2007.

Medical and Professional Fees

The medical and professional fees increased $1,195,765 in 2007 when compared to 2006. The increase is primarily related to the purchase of Pomerene Anesthesia.

The 2008 Operating Budget

The Board of Trustees approved the 2008 Operating Budget at its November 2007 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 2008 budget has flat revenues compared to 2007.

The 2008 budget calls for an excess of revenues over expenses of $1,125,045 or a 4% 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 us.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	$ 1,004,026	$ 2,128,854
Investments	1,038,527	709,178
Patient accounts receivable, net of uncollectible accounts of $2,650,000 in 2007 and $1,000,000 in 2006	5,037,759	5,595,364
Current portion of pledges receivable, less allowance for uncollectible pledges	190,008	169,354
Other receivables	385	2,011
Inventories	441,694	409,036
Estimated third-party settlements	85,240	77,545
Prepaid expenses and other assets	198,901	244,108
Total current assets	7,996,540	9,335,450
Other	481,483	258,045
Assets limited as to use	5,076,514	6,598,365
Capital assets, net of depreciation	14,053,049	9,930,060
Total Assets	$ 27,607,586	$ 26,121,920

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities		
Current portion of long-term debt and leases	$ 156,078	$ 154,823
Accounts payable	631,490	430,499
Accrued salaries, wages and employee benefits	1,869,912	1,759,525
Other accrued expenses	450,710	119,020
Total current liabilities	3,108,190	2,463,867
Long-term debt, net of current portion		
Debt and leases, less current portion	118,102	140,981
Total liabilities	3,226,292	2,604,848
Net assets		
Capital assets, net of related debt	13,778,869	9,634,256
Restricted-by donor for specific uses	1,300,072	1,694,355
Unrestricted	9,302,353	12,188,461
Total net assets	24,381,294	23,517,072
Total liabilities and net assets	$ 27,607,586	$ 26,121,920

See accompanying notes to combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Revenue		
Net patient service revenue	$ 28,225,934	$ 27,963,695
Other operating revenue	198,442	475,191
Total revenue	28,424,376	28,438,886
Expenses		
Salaries and wages	12,293,228	11,709,164
Employee benefits	3,318,456	3,278,380
Supplies and other	9,191,826	8,387,242
Medical professional fees	3,690,218	2,494,453
Physician recruiting and incentive	351,219	504,852
Depreciaton and amortization	1,422,160	1,349,334
Other	25,147	34,389
Total operating expenses	30,292,254	27,757,814
Operating income (loss)	(1,867,878)	681,072
Nonoperating gains (losses)		
Net non-operating income	295,576	307,782
NE network grant-net	(28,327)	(49,823)
Federal grant	2,468,975	-
Change in fair value of investments	(4,124)	(849)
Nonoperating gains (losses)	2,732,100	257,110
Change in net assets	864,222	938,182
Net assets, beginning of year	23,517,072	22,578,890
Net assets, end of year	$ 24,381,294	$ 23,517,072

See accompanying notes to combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 28,775,844	$ 28,018,260
Cash paid to supplies for services and goods	(14,728,469)	(13,936,123)
Cash payments to employees for services	(15,531,759)	(13,268,655)
Other operating revenue received	2,001,727	411,279
Net cash from operating and nonoperating activities	517,343	1,224,761
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(5,402,431)	(1,242,573)
Principal payments on capital leases	(164,342)	(121,526)
Interest paid on capital related debt and capital leases	-	(12,702)
Net cash from capital and related financing activities	(5,566,773)	(1,376,801)
Cash flows from noncapital financing activities		
Other nonoperating activities	2,436,524	(21,496)
Net cash from noncapital financing activitees	2,436,524	(21,496)
Cash flow from investing activities		
Interest on investments	295,576	307,782
Net change in investments and assets whose use is limited	(171,680)	464,507
Net cash from investing activities	123,896	772,289
Net change in cash and cash equivalents	(2,489,010)	598,753
Cash and cash equivalents - beginning of year	5,936,875	5,338,122
Cash and cash equivalents- end of year	$ 3,447,865	$ 5,936,875
Cash and cash equivalents include the following:		
Cash and equivalents	$ 1,004,026	$ 2,128,854
Assets limited as to use cash and cash equivalents		
Board designated for future capital improvements	2,386,113	3,764,751
Funds available for future construction and equipment	57,726	43,270
Total cash and cash equivalents	3,447,865	5,936,875
A reconciliation of the general fund income from operations to net cash flows provided by operating activities:		
Income (loss) from operations	$ (1,867,878)	$ 681,072
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation and amortization	1,422,160	1,349,334
Bad debt expense	3,336,386	1,227,758
Interest expense	-	12,702
Changes in assets and liabilites:		
Patient accounts receivable	(2,778,781)	(2,649,863)
Pledges receivable	(20,654)	234,768
Other receivables	1,626	22,500
Inventories	(32,658)	(25,872)
Prepaid expenses and other assets	(178,231)	183,898
Accounts payable	200,991	65,468
Accrued expenses	442,077	303,885
Deferred revenue	-	(139)
Estimated third-party settlements	(7,695)	(180,750)
Net cash from operating activities	$ 517,343	$ 1,224,761
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 20,067	$ 12,702
Capital assets acquired under capital leases	$ 142,718	$ 221,631

See accompanying notes to combined financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of Joel Pomerene Memorial Hospital (the Hospital) and it's 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 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.

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 are in turn leased directly to the Hospital.

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

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).

<u>Reclassifications</u>

Certain 2006 amounts have been reclassified to conform to the 2007 presentation. These changes had no effect on the change in net assets.

2. CHANGE IN PRESENTATION

The Organization changed the method by which it is presenting its component units during 2007 from a "discrete" presentation to a "blended" presentation and for all disclosures within the 2007 financial statements. The change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, issued by the Governmental Accounting Standards Board.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements 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.

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 Organization are included on the statement of net assets.

Basis of Accounting

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

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 Organization 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 Organization 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 2007, the Organization 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 Organization 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.

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.

In 2007 and 2006, approximately 34% and 31%, respectively, of the Hospital's gross patient revenue was derived from Medicare payments while 10% of the Hospital's gross patient revenue in 2007 and 2006 was derived from Medicaid payments. Additionally, approximately 22% of the Hospital's total patient revenue was derived from individual self-payments in 2007 and 20% in 2006. 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 Organization maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do no 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.

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 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.

4. DEPOSITS AND INVESTMENTS

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:

	2007			2006		
	Cash and Cash Equivalents	Assets whose use is limited	Investments	Cash and Cash Equivalents	Assets whose use is limited	Investments
Financial statements	$ 1,004,026	$ 5,076,514	$ 1,038,527	$ 2,128,854	$ 6,598,365	$ 709,161
Cash deposits	2,386,113	(2,082,266)	(303,847)	3,764,751	(3,764,751)	-
Certificates of deposit	2,584,566	(2,584,566)	-	2,474,365	(2,434,365)	(40,000)
Construction deposits	57,726	(57,726)	-	43,270	(43,270)	-
GASB Statement 3 Deposits	$ 6,032,431	$ 351,956	$ 734,680	$ 8,411,240	$ 355,979	$ 669,161

Deposits- At December 31, 2007, the carrying amount of the Organization's deposits for all funds is $6,026,533 as compared to bank balances of $6,013,879. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, $532,102 is covered by Federal insurance programs and $5,408,155 is collateralized with securities held by the financial institution or by its trust departments or agent but not in the Organization's name.

Investments- Investments of the Organization are reported at fair value. As of December 31, 2007 the Organization 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
N/A-1	N/A-1	N/A-1	Commerical Savings Bank Common Stock	$ 152,224	N/A-3	N/A-3	14.0%
N/A-1	N/A-1	N/A-1	Killbuck Savings Bank Common Stock	186,300	N/A-3	N/A-3	17.1%
N/A-1	N/A-1	N/A-1	Newell-Rubbermaid Common Stock	5,176	N/A-3	N/A-3	0.5%
N/A-2	N/A-2	N/A-2	U.S. Treasury Bonds	8,156	8,156	-	0.8%
N/A-2	N/A-2	N/A-2	US Treasury Notes	50,168	50,168	-	4.6%
Aaa	AAA		FNM Bank	196,667	80,157	116,510	18.1%
Aaa	AAA		FHL Bank	95,636	70,097	25,539	8.8%
Aaa	AAA		GE Capital Corp Notes	124,402	9,988	114,414	11.4%
		***	Federated Mutual Funds-Equity	12,136	N/A-3	-	1.1%
		***	Fidelity Mutual Funds-Equity	78,669	N/A-3	-	7.2%
		***	T. Rowe Price Small Cap Stock	98,853	N/A-3	N/A-3	9.1%
	AAA		Vanguard Mutual Funds - Equity	63,025	N/A-3	-	5.8%
N/A	N/A	N/A	Edward Jones	15,224	15,224	-	1.4%
				$ 1,086,636	$ 233,790	$ 256,463	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

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.

5. RESTRICTED NET ASSETS

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

The Foundation's restricted net assets for December 31, 2007 is summarized below.

Description	Balance 12/31/2006	Contributions	Released or Expended	Adjustments	Balance 12/31/2007
Restricted net assets					
Captial Campaign:					
-Capital Additions to Joel Pomerene Memorial Hospital	$ 1,165,531	$ 85,629	$ 500,000	$ -	$ 751,160
Harold B. Miley Grant					
-Nursing Education and Scholarship	468,767	29,768	8,150	-	490,385
Ken Hochstelter Memorial					
- Radiology education	4,848	180	500	-	4,528
Memorials Fund					
- General Memorial Fund	275	-	-	395	670
Stan Boyd Emergency Fund					
- Prescription purchases	3,064	1,159	1,083	(310)	2,830
Donations	-	-	-	-	-
Emergency Medical Fund	1,870	530	2,211	310	499
Elisa Galley Estate					
-Elderly/Handicapped parking lot	50,000	-	-	-	50,000
	$ 1,694,355	$ 117,266	$ 511,944	$ 395	$ 1,300,072

6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2007	December 31, 2006
Total patient accounts receivable	$ 11,683,984	$ 8,815,991
Less allowance for:		
Contractual adjustments	3,996,225	2,220,627
Uncollectible adjustments	2,650,000	1,000,000
Net patient accounts receivable	$ 5,037,759	$ 5,595,364

7. 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, 2007	December 31, 2006
Less than one year	$ 131,661	$ 248,803
One to five years	153,164	-
Total Pledges Receivable	$ 284,825	$ 248,803

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, 2007	December 31, 2006
Gross pledges receivable	$ 284,825	$ 248,803
Allowance for uncollectible pledges	(94,817)	(79,449)
Net Pledges Receivable	$ 190,008	$ 169,354

8. 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.

9. ASSETS LIMITED AS TO USE

The composition of assets limited as to use is set forth in the following table.

	December 31	
	2007	2006
Internally designated for future capital improvements		
Cash and cash equivalents	2,076,368	3,759,011
Certificate of deposit	2,584,566	2,434,365
Investments in common stock and mutual funds	351,856	355,979
Interest receivable	5,998	5,740
	5,018,788	6,555,095
Funds available for future construction-cash and cash equivalents	57,726	43,270
Total assets limited as to use	$ 5,076,514	$ 6,598,365

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

10. CAPITAL ASSETS

Capital assets consist of the following:

2007	12/31/2006	Increase	Decrease	12/31/2007
Capital assets not being depreciated				
Land	$ 1,277,737	$ 69,652	$ -	$ 1,347,389
Construction in progress	360,823	3,901,767	(3,486,147)	776,443
Total capital assets not being depreciated	1,638,560	3,971,419	(3,486,147)	2,123,832
Capital assets being depreciated				
Building and fixed equipment	11,684,079	3,565,235	-	15,249,314
Moveable equipment	10,770,389	1,526,181	(138,123)	12,158,447
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	169,583	-	-	169,583
Total capital assets being depreciated	23,432,572	5,091,416	(138,123)	28,385,865
Less accumulated depreciation	(15,141,072)	(1,422,160)	106,584	(16,456,648)
Total capital assets being depreciated, net	8,291,500	3,669,256	(31,539)	11,929,217
Total capital assets, net	$ 9,930,060	$ 7,640,675	$(3,517,686)	$ 14,053,049

2006	12/31/2005	Increase	Decrease	12/31/2006
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	11,571,849	112,230	-	11,684,079
Moveable equipment	10,194,613	716,104	(140,328)	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	169,583	-	-	169,583
Total capital assets being depreciated	22,744,566	828,334	(140,328)	23,432,572
Less accumulated depreciation	(13,901,599)	(1,349,334)	109,861	(15,141,072)
Total capital assets being depreciated, net	8,842,967	(521,000)	(30,467)	8,291,500
Total capital assets, net	$ 9,845,657	$ 114,870	$ (30,467)	$ 9,930,060

11. 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 5.7%. They expire at various times through 2010 and are collateralized by the equipment leased.

	December 31	
	2007	2006
Cost of equipment under capital lease	$ 742,417	$ 599,699
Less: Accumulated Depreciation	335,181	239,053
Net carrying amount	$ 407,236	$ 360,646

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2007. Operating lease expense totaled $568,353 in 2007 and $418,895 in 2006.

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 2007 and in 2006.

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 2007 and 2006.

Minimum payments on these obligations to maturity as of December 31, 2007 are as follows:

	Capital Leases	Operating Lease	Total
2008	$ 164,335	$ 65,295	$ 229,630
2009	82,974	65,295	148,269
2010	39,131	65,295	104,426
2011	-	65,295	65,295
2012	-	65,295	65,295
2013-2016	-	87,060	87,060
Total payments	286,440	413,535	699,975
Less amount representing interest	12,260	-	12,260
Total	$ 274,180	$ 413,535	$ 687,715

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2007. 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.

12. 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 $1,395,000 and $1,233,000 in 2007 and 2006, respectively.

13. 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, 2007 and 2006 are as follows:

	Year Ended December 31	
	2007	2006
Gross patient service revenue	$ 52,674,263	$ 47,045,115
Revenue deductions:		
Provision for contractual allowances	19,716,492	16,620,981
Bad debts	3,336,386	1,227,760
Charity	1,395,451	1,232,679
Total revenue deductions	24,448,329	19,081,420
Total net patient service revenue	$ 28,225,934	$ 27,963,695

14. 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).

<u>Funding Policy</u>

The required, actuarially-determined contribution rates for the Hospital and for employees are 13.85% and 9.5%, respectively. The Hospital's contributions to OPERS for the years ended December 31, 2007, 2006 and 2005 were approximately $1,478,000 $1,382,000 and $1,379,000.

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 2007 and 2006 employer contribution rates of 13.85% used to fund healthcare was 5.0% from January 1 through June 30, 2007 and 6% from July 1 through December 31, 2007. 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, 2006. 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.

The investment return assumption rate for 2006 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 5% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130.

Hospital contributions made to fund post-employment benefits approximated $587,000 and $454,000 for 2007 and 2006, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2006 was $12 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.

15. ADVERTISING

The Hospital expenses advertising cost as they are incurred. Advertising expense was $147,897 and $183,007 for 2007 and 2006, respectively. Advertising expenses are included in operating expenses in the financial statements.

16. 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.

17. 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 2007 and 2006 resulted from the following:

	Beginning Balance	Revenue	Expenses	Ending Balance
2007	$ 104,153	$ -	$ 28,327	$ 75,826
2006	$ 104,153	$ -	$ -	$ 104,153

18. 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.

19. INCOME GRANTS AND FORGIVENESS OF EDUCTIONAL 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, 2007 and 2006, the loan receivable in connection with these income grants and forgiveness of educations loans was $450,565 and $258,045, respectively. The loans will be forgiven over time as physicians fulfill their committed term of service.

JOEL POMERENE MEMORIAL HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2007

Program	Federal Grantor	CFDA Number	Federal Expenditures
Major program			
Health Care and Other Facilities (Renovation or Construction Projects)	Health Resources and Services Administration (DHHS)	93.887	1,688,106
Non-major program			
National Bioterrorism Hospital Prepardness Program	Health Resources and Services Administration (DHHS)	93.889	9,380
Total federal expenditures			$ 1,697,486

Note - The accompanying schedule of expenditures of federal awards for the year ended December 31, 2007 includes the federal grant activity of the Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

See Report of Independent Auditors on page 1 and 2.

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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

Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

We have audited the combined financial statements of Joel Pomerene Memorial Hospital (the Hospital) as of and for the year ended December 31, 2007, and have issued our report thereon dated June 18, 2008. 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.

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.

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 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.

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 combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instance 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 June 20, 2008.

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

Blue & Co., LLC

June 20, 2008

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

Compliance

We have audited the compliance of Joel Pomerene Memorial Hospital (the Hospital) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Hospital's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Trustees, management, the cognizant audit agencies, other federal awarding agencies and pass-through entities and the auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

June 20, 2008

Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	__ yes	x no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	__ yes	x none noted
Noncompliance material to financial statements noted?	__ yes	x no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	__ yes	x no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	__ yes	x none noted
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	__ yes	x no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
93.887	Health Care and Other Facilities

Dollar threshold used to distinguish between type A and B programs:	$300,000	
Auditee qualified as low-risk auditee?	__ yes	x no

Joel Pomerene Memorial Hospital
Summary Schedule of Prior Audit Findings
December 31, 2007

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

Condition:

The finding was a significant deficiency stating that the Hospital should implement policies over unusual and non-routine transactions.

Recommendation:

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.

Current Status:

Corrective action was taken.

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
JULY 8, 2008

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