

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

* * * *

Financial Statements

December 31, 2005 and 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc. for the audit period January 1, 2005 through December 31, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 11, 2006

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

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 1, 2006

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holmes County's management. Our responsibility is to express an opinion on these basic financial statements based on our 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 audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (component unit), as of December 31, 2005 and 2004, and the respective changes in financial position and cash flows for the years 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 a report dated March 1, 2006 on our consideration of Joel Pomerene Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws and 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.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit). 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, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

This discussion and analysis of Joel Pomerene Memorial Hospital (business-type activities) and Joel Pomerene Foundation's (component unit) financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2005 and 2004. The intent of this discussion and analysis is to provide further information on the Hospital's and Foundation's financial performance as a whole: readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- In 2005, total assets increased \$159,809 over 2004 levels. Total business-type activities assets decreased \$225,337 and total component unit assets increased \$385,146.
- Net accounts receivable decreased \$123,465. Net days in accounts receivable were 60.1 at December 31, 2005, compared to 62.4 at December 31, 2004 and 60.4 at December 31, 2003.
- Total liabilities decreased \$1,243,282; current liabilities decreased \$312,894; other long term liabilities decreased \$930,388 from December 31, 2004 to December 31, 2005.
- Net cash provided by operating activities was \$2,369,690 in 2005 compared to \$2,163,382 in 2004 for the business-type activities and \$500,135 in 2005 compared to \$277,425 in 2004 for the component unit.

Overview of Financial Statements

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

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

While the County is empowered to appropriate money from its general fund, from certain state and federal moneys it receives, and, with the 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 its operations.

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

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

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

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

Financial Analysis of the Hospital

Pomerene Hospital's Net Assets changed from a year ago, increasing from \$21,175,799 to \$22,578,890. Table 1 provides a summary of the Hospitals Net Assets for 2005, compared to 2004, and 2004 compared to 2003.

**Table 1
Net Assets**

	Business-Type Pomerene Hospital			Governmental Activities Joel Pomerene Foundation			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Assets:									
Current Assets	\$ 6,656,639	\$ 6,823,877	\$ 6,565,192	\$ 1,636,195	\$ 1,097,954	\$ 772,780	\$ 8,292,834	\$ 7,921,831	\$ 7,337,972
Assets Whose Use is Limited	6,683,969	7,192,299	6,705,592		0	0	6,683,969	7,192,299	6,705,592
Pledges Receivable		0	0	58,287	209,242	399,875	58,287	209,242	399,875
Capital Assets	9,842,447	9,392,216	9,503,251	1,070	3,210	5,352	9,843,517	9,395,426	9,508,603
Total Assets	23,183,055	23,408,392	22,774,035	1,695,552	1,310,406	1,178,007	24,878,607	24,718,798	23,952,042
Liabilities:									
Current Liabilities	2,097,764	2,495,465	2,446,032	84,807	0	0	2,182,571	2,495,465	2,446,032
Long-Term Debt	117,146	1,047,534	1,143,824	0	0	0	117,146	1,047,534	1,143,824
Total Liabilities	2,214,910	3,542,999	3,589,856	0	0	0	2,299,717	3,542,999	3,589,856
Net Assets:									
Capital Assets, Net of Related Debt	9,646,748	8,214,392	8,199,264	1,070	3,210	5,352	9,647,818	8,217,602	8,204,616
Unrestricted	11,321,397	11,651,001	10,984,915	38,475	40,617	27,821	11,359,872	11,691,618	11,012,736
Restricted	0	0	0	1,571,200	1,266,579	1,144,834	1,571,200	1,266,579	1,144,834
Total Net Assets	\$ 20,968,145	\$ 19,865,393	\$ 19,184,179	\$ 1,610,745	\$ 1,310,406	\$ 1,178,007	\$ 22,578,890	\$ 21,175,799	\$ 20,362,186

In 2005, the cash and investment position increased \$621,625 over 2004. Cash from business-type activities increased \$121,490, while cash from governmental activities increase \$500,135.

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

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 2005 is \$6,683,969 compared to \$7,192,299 at the end of 2004.

Capital Assets

Business-type capital assets increased from \$9,392,216 to \$9,842,447 in 2005. The increase relates to \$1,757,858 in capital additions, offset by \$1,307,627 in depreciation expense. Major capital additions include a Toshiba CT Scanner, Tele-radiology System, Muse System software/hardware for Laboratory, and the purchase of the OB/Gyn Physician Practice.

The only change to the component unit assets was \$2,140 in depreciation expense.

Pledges Receivable and Pledge Revenue

At December 31, 2005 the net pledges receivable for the Joel Pomerene Foundation decreased \$112,849 from the previous year. The total pledges receivable was \$404,122 at December 31, 2005 and \$516,971 at December 31, 2004 with an allowance for uncollectible pledges of \$115,120 and \$121,059, respectively.

The reason for the drop in both pledges receivable was that in 2002 the Joel Pomerene Foundation actively solicited pledges for the capital campaign for funds to be used in a construction/renovation project in the planning phase. In 2003 a hold was put on the campaign until the construction plans were finalized. The hold continued in 2005.

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2005 compared to 2004, and 2003 compared to 2002.

**Table 2
Revenues and Expenses**

	Business-Type Pomerene Hospital			Governmental Activities JP Foundation			Total		
	2005	2004	2003	2005	2004	2003	2005	2003	2002
Revenue:									
Net Patient Services Revenue	\$ 25,363,732	\$ 25,119,172	\$ 23,844,364	\$ 0	\$ 0	\$ 0	\$ 25,363,732	\$ 25,119,172	\$ 23,844,364
JP Foundation Revenues		0	0	589,455	161,345	205,703	589,455	161,345	205,703
Other Revenues	326,476	309,428	185,450	0	0	0	326,476	309,428	185,450
Total Revenues	25,690,208	25,428,600	24,029,814	589,455	161,345	205,703	26,279,663	25,589,945	24,235,517
Operating Expenses:									
Salaries and Wages	10,111,998	10,008,803	9,170,365	0	0	0	10,111,998	10,008,803	9,170,365
Emp. Benefits and Payroll Taxes	3,160,031	2,900,870	2,468,372	0	0	0	3,160,031	2,900,870	2,468,372
Supplies and Other	7,536,459	7,364,919	6,435,926	0	0	0	7,536,459	7,364,919	6,435,926
Medical/Professional Fees	1,824,389	1,715,179	1,592,635	0	0	0	1,824,389	1,715,179	1,592,635
Physician Recruit/Incentive	535,448	562,402	180,561	0	0	0	535,448	562,402	180,561
Provision for Bad Debts	926,258	1,017,096	1,011,306	0	0	0	926,258	1,017,096	1,011,306
Depreciation	1,270,053	1,133,830	1,141,187	0	0	0	1,270,053	1,133,830	1,141,187
Interest	0	95,617	106,723	0	0	0	0	95,617	106,723
JP Foundation Expenses	0	0	0	289,116	28,946	75,021	289,116	28,946	75,021
Total Expenses	25,364,636	24,798,716	22,107,075	289,116	28,946	75,021	25,653,752	24,827,662	22,182,096
Operating Income	325,572	629,884	1,922,739	300,339	132,399	130,682	625,911	762,283	2,053,421
Non Operating Income	53,022	56,093	81,229	0	0	0	53,022	56,093	81,229
Federal Grant	738,119	0	(44,234)	0	0	0	738,119	0	(44,234)
NE Network Grant Expenses	(31,527)	(40,281)	(44,234)	0	0	0	(31,527)	(40,281)	(44,234)
Change Fair Value of Investments	17,566	35,518	5,053	0	0	0	17,566	35,518	5,053
Excess Revenues Over Expenses	\$ 1,102,752	\$ 681,214	\$ 1,920,553	\$ 300,339	\$ 132,399	\$ 130,682	\$ 1,403,091	\$ 813,613	\$ 2,051,235

Net Patient Service Revenues

Compared to 2004, net patient service revenues increased \$244,560 or less than 1%.

For fiscal year 2005, the Hospital Board of Trustees approved a 3.0% price increase. Inpatient admissions decreased 7.5% and outpatient registration remained constant, therefore keeping increased revenue at less than 3.0%.

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

*Management's Discussion and Analysis
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(Unaudited)*

Inpatient Business Activity

Total admissions in 2005 decreased approximately 8.0% from 2004 levels, however the mix of admissions has remained the same:

Specialty	2005	2004	2003	2005 to 2004 % Change
Internal Medicine	775	858	943	-9.67%
General Surgery	175	169	241	3.55%
Orthopedics	65	66	68	-1.52%
OB/GYN	197	200	162	-1.50%
Family Practice	1037	1,162	1,233	-13.34%
Emergency	17	10	6	70.00%
Total	2266	2,465	2,653	-8.07%

Total patient days for 2005 decreased nearly 6.8% compared to 2004 and the average length of stay remained unchanged:

Unit	2005 Patient Days	2004 Patient Days	2003 Patient Days	2005 to 2004 % Change
Medical	4217	4599	4,381	-8.31%
Surgical	427	454	635	-5.95%
Pediatrics	211	171	285	23.39%
Special Care	162	164	256	-1.22%
Maternity	950	1,004	1,102	-5.38%
Nursery	820	888	978	-7.66%
Total	6787	7,280	7,637	-6.77%

Unit	2005 ALOS	2004 ALOS	2003 ALOS	2004 to 2003 % Change
Medical	3.9	4.0	3.9	-2.5%
Surgical	3.0	2.9	2.9	3.4%
Pediatric	2.3	2.4	2.5	-4.2%
Special Care	1.7	1.0	1.9	70.0%
Maternity	2.1	2.0	1.9	5.0%
Nursery	1.8	1.7	1.7	5.9%
Total	3.0	3.0	3.2	0.0%

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

Outpatient Business Activity

The Hospital's outpatient business recorded 0.18% growth. The areas that recorded the largest increases include outreach laboratory, and emergency room.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross revenues were recorded at 39.2% in 2005, compared to 35.1% in 2004, an increase of 4.1%. In 2003, deductions from revenue were recorded at 33.4%. The increase in the deductions from revenue is due in part to the price increase approved by the Board of Trustees, reduced reimbursement from Medicare and Medicaid as well as changes to third-party (managed care) payer contracts.

Charity care for 2005 decreased 9.3% when compared to 2004 levels. In the late 1980s 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 2005, Pomerene Hospital's HCAP distribution was \$634,560 more than its assessment, compared to \$556,621 in 2004.

Operating Expenses

Total operating expenses in 2005 exceeded the 2004 levels by \$826,090 or 2.2%. In 2004 total operating expenses exceeded 2003 by \$2,645,566.

Category	Business-Type Pomerene Hospital			Governmental Activities Joel Pomerene Foundation			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Salaries and Wages	\$ 10,111,998	\$ 10,008,803	\$ 9,170,365	\$ 0	\$ 0	\$ 0	\$ 10,111,998	\$ 10,008,803	\$ 9,170,365
Employee Benefits	3,160,031	2,900,870	2,468,372	0	0	0	3,160,031	2,900,870	2,468,372
Supplies and Other	7,536,459	7,364,919	6,435,926	0	0	0	7,536,459	7,364,919	6,435,926
Med/Prof Fees	1,824,389	1,715,179	1,592,635	0	0	0	1,824,389	1,715,179	1,592,635
Bad Debt Expense	926,258	1,017,096	1,011,306	0	0	0	926,258	1,017,096	1,011,306
Depreciation	1,270,053	1,133,830	1,141,187	0	0	0	1,270,053	1,133,830	1,141,187
All Other Expenses	535,448	658,019	287,284	289,116	28,946	75,021	824,564	686,965	362,305
Total	25,364,636	24,798,716	22,107,075	289,116	28,946	75,021	25,653,752	24,827,662	22,182,096

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
(Unaudited)*

Salary & Wages

To remain competitive in the market place, the Board of Trustees approved hourly/salary pay adjustments as part of the 2005 Operating Budget. The adjustment totaled approximately \$185,000.

Total FTEs increased 3.0 from 2004 to 2005, which accounts for approximately \$120,000 in increased salary and wages and employee benefits

A third factor affecting the salary and wage increase was the total payout under the Hospital's Partners in Performance Program. In 2004 the total paid to employees was approximately \$350,000. In 2005 there was no payout under the Partner's in Performance Program.

Employee Benefits

The amounts paid relating to employee benefits for the Hospital increased \$259,161 from 2004 to 2005.

The main item that affected the increased in employee benefits was an increase in the amount paid for employee and dependant health insurance. This increase was \$62,898.

The remainder of the increase in employee benefits is due to the increase in FTEs discussed previously.

Medical and Professional Fees

The medical and professional fees actually showed a increase of \$109,210 in 2005 when compared to 2004.

The 2006 Operating Budget

The Board of Trustees approved the 2006 Operating Budget at its November 2005 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 budget estimates nearly \$1.6 million in additional revenues.

The 2006 budget calls for an excess of revenues over expense of \$414,713 or 1.5% of net patient revenue.

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

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004

	Business-Type Activity		Component Unit	
	Joel Pomerene Memorial Hospital		Joel Pomerene Foundation	
	2005	2004	2005	2004
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,389,652	\$ 1,268,162	\$ 745,769	\$ 205,748
Investments	0	0	544,591	584,477
Patient, accounts receivable	4,173,261	4,296,726	0	0
Current portion of pledges receivable, less allowance for uncollectible pledges	0	0	345,835	307,729
Third party settlements	0	140,319	0	0
Other receivables	24,511	27,506	0	0
Inventories	383,164	400,794	0	0
Prepaid expenses and other assets	686,051	595,413	0	0
Current portion of assets limited as to use	0	94,957	0	0
Total current assets	<u>6,656,639</u>	<u>6,823,877</u>	<u>1,636,195</u>	<u>1,097,954</u>
NON CURRENT ASSETS:				
Pledges receivable, net of current portion, less allowance for uncollectible accounts	0	0	58,287	209,242
Assets limited as to use, net of current portion	6,683,969	7,192,299	0	0
Capital assets, net of depreciation	9,842,447	9,392,216	1,070	3,210
Total non current assets	<u>16,526,416</u>	<u>16,584,515</u>	<u>59,357</u>	<u>212,452</u>
Total assets	<u>23,183,055</u>	<u>23,408,392</u>	<u>1,695,552</u>	<u>1,310,406</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long term debt and leases	78,553	130,290	0	0
Accounts payable	364,044	466,496	987	0
Third party payable	103,205	0	0	0
Accrued salaries, wages and employee benefits	1,388,505	1,603,365	0	0
Other accrued expenses	163,318	286,984	83,820	0
Deferred revenue	139	8,330	0	0
Total current liabilities	<u>2,097,764</u>	<u>2,495,465</u>	<u>84,807</u>	<u>0</u>
LONG TERM LIABILITIES:				
Debt and leases, less current portion	117,146	1,047,534	0	0
Total liabilities	<u>2,214,910</u>	<u>3,542,999</u>	<u>84,807</u>	<u>0</u>
NET ASSETS:				
Capital assets, net of related debt	9,646,748	8,214,392	1,070	3,210
Restricted - by donor for specific uses	0	0	1,571,200	1,266,579
Unrestricted	11,321,397	11,651,001	38,475	40,617
Total net assets	<u>\$ 20,968,145</u>	<u>\$ 19,865,393</u>	<u>\$ 1,610,745</u>	<u>\$ 1,310,406</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Business-Type Activity		Component Unit	
	Joel Pomerene Memorial Hospital		Joel Pomerene Foundation	
	2005	2004	2005	2004
REVENUE:				
Net patient service revenue	\$ 25,363,732	\$ 25,119,172	\$ 0	\$ 0
Contributions	0	0	300,547	109,104
Fund-raising income	0	0	14,104	16,975
Interest income	0	0	12,572	7,947
Public support - capital campaign	0	0	0	21,965
Grants	0	0	9,592	5,354
Employee lease revenue	0	0	252,640	0
Other operating revenue	326,476	309,428	0	0
Total revenue	<u>25,690,208</u>	<u>25,428,600</u>	<u>589,455</u>	<u>161,345</u>
EXPENSES:				
Salaries and wages	10,111,998	10,008,803	231,132	0
Employee benefits and payroll taxes	3,160,031	2,900,870	22,254	0
Supplies and other	7,484,722	7,364,919	0	0
Medical professional fees	1,824,389	1,715,179	0	0
Physician recruiting and incentive	535,448	562,402	0	0
Provision for bad debts	926,258	1,017,096	0	0
Depreciation and amortization	1,270,053	1,133,830	2,140	2,142
Interest	51,737	95,617	0	0
Legal and professional fees	0	0	7,450	8,100
Fund-raising expenses	0	0	5,204	2,056
Diabetes Grant expenses	0	0	0	1,308
Stan Boyd Emergency expenses	0	0	269	0
Guardianship Program expenses	0	0	7,860	2,428
Scholarships	0	0	4,000	5,000
Charity care expenses	0	0	2,102	2,116
Administrative	0	0	6,505	1,949
State filing fee	0	0	200	200
Donation expense	0	0	0	3,647
Total expenses	<u>25,364,636</u>	<u>24,798,716</u>	<u>289,116</u>	<u>28,946</u>
OPERATING INCOME (LOSS)	325,572	629,884	300,339	132,399
Net non-operating income	53,022	56,093	0	0
Federal Grant	738,119	0	0	0
NE Network Grant - Net	(31,527)	(40,281)	0	0
Change in fair value of investments	17,566	35,518	0	0
INCREASE (DECREASE) IN NET ASSETS	1,102,752	681,214	300,339	132,399
NET ASSETS AT BEGINNING OF THE YEAR	19,865,393	19,184,179	1,310,406	1,178,007
NET ASSETS AT THE END OF THE YEAR	<u>\$ 20,968,145</u>	<u>\$ 19,865,393</u>	<u>\$ 1,610,745</u>	<u>\$ 1,310,406</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Business-Type Activity		Component Unit	
	Joel Pomerene Memorial Hospital		Joel Pomerene Foundation	
	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from patients and third-party payers	\$ 25,733,716	\$ 24,705,697	\$ 689,612	\$ 296,282
Interest income	0	0	12,692	7,947
Cash paid to suppliers for services and goods	(10,151,878)	(9,865,253)	(202,169)	(26,804)
Cash payments to employees for services	(13,486,887)	(12,986,490)	0	0
Other operating revenue received	326,476	309,428	0	0
Net cash provided by operating activities	<u>2,421,427</u>	<u>2,163,382</u>	<u>500,135</u>	<u>277,425</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisitions and construction of capital assets	(1,757,853)	(1,063,076)	0	0
Proceeds from sale of capital asset	0	0	0	0
Principal payments on capital leases	(75,290)	(72,163)	0	0
Principal payments on capital related debts	(906,835)	(54,000)	0	0
Interest paid on capital related debt and capital leases	(51,737)	(95,617)	0	0
Net cash used in capital and related financing activities	<u>(2,791,715)</u>	<u>(1,284,856)</u>	<u>0</u>	<u>0</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:				
Federal grant proceeds	738,119	0	0	0
Net cash provided by (used in) noncapital financing activities	<u>738,119</u>	<u>0</u>	<u>0</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Advances to physicians	0	6,382	0	0
Interest on investments	144,190	96,374	0	0
Net (purchases) and maturities of investments	(823,127)	(1,106,538)	39,886	(297,037)
Net cash provided by (used in) investing activities	<u>(678,937)</u>	<u>(1,003,782)</u>	<u>39,886</u>	<u>(297,037)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(311,106)	(125,256)	540,021	(19,612)
CASH AND CASH EQUIVALENTS, Beginning of year	4,903,459	5,028,715	205,748	225,360
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 4,592,353</u>	<u>\$ 4,903,459</u>	<u>\$ 745,769</u>	<u>\$ 205,748</u>
Cash and cash equivalents include the following:				
Cash and equivalents	\$ 1,389,652	\$ 1,268,162	\$ 745,769	\$ 205,748
Assets limited as to use cash and cash equivalents:				
Board designated for future capital improvements	3,159,431	3,592,027	0	0
Funds available for future construction and equipment	43,270	43,270	0	0
Total cash and cash equivalents	<u>\$ 4,592,353</u>	<u>\$ 4,903,459</u>	<u>\$ 745,769</u>	<u>\$ 205,748</u>
A reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows:				
Income from operations	\$ 325,572	\$ 629,884	\$ 300,339	\$ 132,399
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation and amortization	1,270,053	1,133,830	2,140	2,142
Bad debt expense	926,258	1,017,096	0	0
Interest expense	51,737	95,617	0	0
Loss on sale of capital asset	0	0	0	0
Changes in assets and liabilities:				
(Increase) decrease in patient accounts receivable	123,465	(366,581)	0	0
(Increase) decrease in pledges receivable	0	0	112,849	142,459
(Increase) decrease in other receivables	2,995	(3,006)	0	425
(Increase) decrease in inventories	17,630	2,270	0	0
(Increase) decrease in prepaid items	(90,638)	(381,146)	0	0
Increase (decrease) in accounts payable	(102,452)	124,774	987	0
Increase (decrease) in accrued expenses	(338,526)	(53,798)	83,820	0
Increase (decrease) in deferred revenue	(8,191)	8,330	0	0
Increase (decrease) in third-party settlements	243,524	(43,888)	0	0
Net cash provided by operating activities	<u>\$ 2,421,427</u>	<u>\$ 2,163,382</u>	<u>\$ 500,135</u>	<u>\$ 277,425</u>

See accompanying notes to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. NATURE OF BUSINESS

Joel Pomerene Memorial Hospital

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

The Hospital 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). In accordance with hospital industry accounting practice, the financial statements include an unrestricted net assets.

The Hospital's net assets are considered to be unrestricted.

Joel Pomerene Foundation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hospital and Foundation (the Reporting Entity) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. The Foundation has elected to use the Governmental Reporting Model as determined in the Governmental Accounting Standards Board Statement 29 (GASB 29 - The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities). For the year ended December 31, 2005, the Hospital has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures.*" The most significant of the Reporting Entity's accounting policies are described below.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

A. Basis of Presentation

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

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

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

B. Measurement Focus

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide 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 Reporting Entity receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Reporting Entity must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Reporting Unit on a reimbursement basis.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Under the full accrual basis of accounting, all pledge receivables are considered to meet the revenue recognition criteria. Therefore, no deferred revenue is reported on the Statement of Net Assets.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

D. Cash and Cash Equivalents

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 2005, the Reporting Unit had investments in common stock, mutual funds, government securities, certificates of deposit, and bank accounts. Investments are reported at fair value which is based on quoted market prices.

Investments of the cash and investments with a maturity of three months or less at the time they are purchased by the Reporting Unit are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

E. Investments

Investments are carried at fair value. 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.

F. 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. In 2005 and 2004, approximately 33% and 32%, respectively, of the Hospital's gross patient revenue was derived from Medicare payments while 10% in both 2005 and 2004 was derived from Medicaid payments. Additionally, approximately 18% of the Hospital's total patient revenue was derived from individual self-payments in 2005 and 19% in 2004. The remaining revenue was derived primarily from commercial insurance payments.

G. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

H. Assets Limited as to Use

Assets limited as to use consists 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

I. Capital Assets

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

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

J. Charity Care

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

K. Net Assets

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

L. 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

3. DEPOSITS AND INVESTMENTS

Joel Pomerene Memorial Hospital

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

	Cash and Cash Equivalents	Assets Whose Use Is Limited
Financial statements	\$ 1,389,652	\$ 6,683,969
Cash deposits	3,159,531	(3,159,531)
Certificates of Deposit	3,120,443	(3,120,443)
Interest receivable	0	(3,896)
Construction deposits	43,270	(43,270)
Cash on hand	(600)	0
GASB Statement No. 3 deposits	<u>\$ 7,712,296</u>	<u>\$ 356,829</u>

Deposits - At December 31, 2005, the carrying amount of the Hospital's deposits for all funds is \$7,712,296 as compared to bank balances of \$8,238,544. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, \$413,439 is covered by Federal insurance programs and \$7,825,105 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments - Investments of the Hospital are reported at fair value. As of December 31, 2005 the Hospital had the following investments:

<u>Investment/Market Rating</u>			Entity	Fair Value	Maturities in years (less than 1)	As part of Total Investment
Moody's	S&P	Morning Star				
N/A-1	N/A-1	N/A-1	Commercial Savings Bank Common Stock	\$180,096	N/A-3	50.5%
N/A-1	N/A-1	N/A-1	Killbuck Savings Bank Common Stock	164,333	N/A-3	46.1%
	B		Newell-Rubbermaid Common Stock	4,756	N/A-3	1.3%
N/A-2	N/A-2	N/A-2	U.S. Treasury Bonds	7,644	7,644	2.1%
				<u>\$356,829</u>	<u>\$7,644</u>	<u>100%</u>

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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 than any investment must mature within five years, unless matched to a specific obligation or debt of the Hospital. The Hospital’s investment policy also states that no investment will be made unless the Board of Trustees reasonably believes at the time the investment is made that the investment can be held until maturity. However, an investment may be sold prior to maturity if the Board of Trustees determines that such sale is prudent.

Credit Risk: The Hospital’s investment credit or market ratings are summarized above.

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

Joel Pomerene Foundation

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

	Cash and Cash Equivalents	Investments
Financial statements	\$ 745,769	\$ 544,591
Certificates of Deposit	130,000	(130,000)
Money Market	1,788	(1,788)
GASB Statement No. 3 deposits	\$ 877,557	\$ 412,803

Deposits - At year-end the carrying amount of the Foundations deposits was \$877,557 and the bank balance was \$884,783, of which \$322,978 was covered by federal depository insurance. The remaining \$561,805 is collateralized by the financial institution.

Investments – Investments of the Foundation are reported at fair value. It is the general policy of the Foundation Board to preserve the principal and to use the income, in whole or in part, for the benefit of the Hospital and the community. Therefore, the investment plan of the Foundation will be to invest in securities which produce long-term gain, and the assets will be selected more on the basis of long-term growth potential than short-term gain. As of December 31, 2005 the Foundation had the following investments:

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

<u>Investment/Market Rating</u>			Entity	Fair Value	Maturities in years (less than 1)	Maturities in years (1-5)	As part of Total Investment
Moody's	S&P	Morning Star					
Aaa			FNM Bank	\$143,162	\$143,162	\$0	34.6%
Aaa			FHL Bank	142,095	142,095	0	34.4%
	AAA		GE Capital Corp Notes	9,848	0	9,848	2.4%
		***	Federated Mutual Funds-Equity	21,312	21,312	0	5.2%
		***	Fidelity Mutual Funds-Equity	16,807	16,807	0	4.1%
		***	T. Row Price Small Cap Stock	5,774	N/A-2	N/A-2	1.4%
	AAA		General Electric CAP MTN	48,805	0	48,805	11.8%
N/A-1	N/A-1	N/A-1	Ohio Hospital Association Stock	25,000	N/A-2	N/A-2	6.1%
				<u>\$412,803</u>	<u>\$323,376</u>	<u>\$58,653</u>	<u>100%</u>

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

4. NET ASSETS

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

The Foundation's restricted net assets for December 31, 2005 is summarized below.

Description	Balance 12/31/04	Contributions	Released or Expended	Adjustments	12/31/05
Restricted Net Assets:					
Capital Campaign:					
- Capital additions to Joel Pomerene Memorial Hospital	\$ 1,114,293	\$ 2,894	\$ 12,077	\$ 0	\$ 1,105,110
Guardianship Program Grant					
- Companionship for the elderly	2,272	9,592	7,860	0	4,004
Harold B. Miley Grant					
- Nursing education and scholarships	100,014	303,720	0	661	404,395
Ken Hochstelter Memorial					
- Radiology education	0	4,848	0	0	4,848
Stan Boyd Emergency Fund					
- Prescription purchases	0	3,112	269	0	2,843
Elsie Galley Estate:					
- Elderly/handicapped parking lot	50,000	0	0	0	50,000
	<u>1,266,579</u>	<u>324,166</u>	<u>20,206</u>	<u>661</u>	<u>1,571,200</u>
Capital Assets, Net of Related Debt	3,210	0	2,140	0	1,070
Unrestricted Net Assets	<u>40,617</u>	<u>277,366</u>	<u>278,847</u>	<u>(661)</u>	<u>38,475</u>
Total Net Assets	<u>\$ 1,310,406</u>	<u>\$ 601,532</u>	<u>\$ 301,193</u>	<u>\$ 0</u>	<u>\$ 1,610,745</u>

The Foundation's restricted net assets for December 31, 2004 is summarized below.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Description	Balance 12/31/04	Contributions	Released or Expended	Adjustments	12/31/05
Restricted Net Assets:					
Capital Campaign:					
- Capital additions to Joel Pomerene Memorial Hospital	\$ 1,092,328	\$ 21,965	\$ 0	\$ 0	\$ 1,114,293
Diabetes Grant	654	0	654	0	0
Guardianship Program Grant					
- Companionship for the elderly	0	4,700	0	(2,428)	2,272
Harold B. Miley Grant					
- Nursing education and scholarships	0	100,014	0	0	100,014
Donations	0	9,090	0	(9,090)	0
Emergency Medical Fund	1,852	0	0	(1,852)	0
Elsie Galley Estate:					
- Elderly/handicapped parking lot	50,000	0	0	0	50,000
	<u>1,144,834</u>	<u>135,769</u>	<u>654</u>	<u>(13,370)</u>	<u>1,266,579</u>
Capital Assets, Net of Related Debt	5,352	0	2,142	0	3,210
Unrestricted Net Assets	<u>27,821</u>	<u>20,551</u>	<u>21,125</u>	<u>13,370</u>	<u>40,617</u>
Total Net Assets	<u>\$ 1,178,007</u>	<u>\$ 156,320</u>	<u>\$ 23,921</u>	<u>\$ 0</u>	<u>\$ 1,310,406</u>

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31,	
	<u>2005</u>	<u>2004</u>
Total patient accounts receivable	\$ 6,218,661	\$ 6,822,926
Less allowances for:		
Contractual adjustments	1,105,400	1,511,200
Uncollectible adjustments	<u>940,000</u>	<u>1,015,000</u>
Net patient accounts receivable	<u>\$ 4,173,261</u>	<u>\$ 4,296,726</u>

6. PLEDGES RECEIVABLE

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	December 31,	
	<u>2005</u>	<u>2004</u>
Less than one year	\$ 444,389	\$ 379,788
One to five years	<u>74,853</u>	<u>258,242</u>
Total pledges receivable	<u>\$ 519,242</u>	<u>\$ 638,030</u>

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

	December 31,	
	<u>2005</u>	<u>2004</u>
Gross pledges receivable	\$ 519,242	\$ 638,030
Allowance for uncollectible pledges	<u>(115,120)</u>	<u>(121,059)</u>
Net pledges receivable	<u>\$ 404,122</u>	<u>\$ 516,971</u>

7. THIRD-PARTY SETTLEMENTS

The Hospital has agreements with Medicare and Medicaid that provide for reimbursements to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amount reimbursed by third-party payers. The Hospital has reached final settlement with Medicare through 2002 and Medicaid through 1999.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

8. ASSETS LIMITED AS TO USE

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

	December 31,	
	2005	2004
Internally designated for future capital improvements:		
Cash and cash equivalents	\$ 3,120,443	\$ 3,042,591
Certificates of deposit	3,159,531	3,592,027
Investments in common stock and mutual funds	356,829	339,263
Interest receivable	3,896	2,073
	6,640,699	6,975,954
Funds available for future construction - cash and cash equivalents	43,270	43,270
Held by trustee in connection with debt service	0	268,032
Total assets limited as to use	\$ 6,683,969	\$ 7,287,256
Assets limited as to use - current portion	\$ 0	\$ 94,957
Assets limited as to use - long term portion	6,683,969	7,192,299
Total assets limited as to use	\$ 6,683,969	\$ 7,287,256

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

9. INVESTMENTS

The Hospital's investments are held by the Hospital or its agent in the Hospital's name.

The cost and approximate fair value of investments are as follows:

Assets limited as to use:

Unrestricted:

	Cost	Fair Value January 1, 2005	Fair Value December 31, 2005	Change in Fair Value
Common Stock	\$ 47,837	\$ 331,640	\$ 349,185	\$ 17,545
Mutual Fund	4,976	7,623	7,644	21
Total	\$ 52,813	\$ 339,263	\$ 356,829	\$ 17,566
	Cost	Fair Value January 1, 2004	Fair Value December 31, 2004	Change in Fair Value
Common Stock	\$ 47,837	\$ 296,147	\$ 331,640	\$ 35,493
Mutual Fund	4,976	7,598	7,623	25
Total	\$ 52,813	\$ 303,745	\$ 339,263	\$ 35,518

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

10. CAPITAL ASSETS

Capital assets consist of the following:

<u>Hospital:</u>	Beginning Balance	Increases	Decreases	Ending Balance
2005				
Capital Assets Not Being Depreciated				
Land	\$ 910,869	\$ 8,870	\$ 0	\$ 919,739
Construction in Progress	82,951	0	0	82,951
Total Capital Assets not being depreciated	<u>993,820</u>	<u>8,870</u>	<u>0</u>	<u>1,002,690</u>
Capital Assets Being Depreciated				
Building & Fixed Equipment	11,478,372	82,775	0	11,561,147
Moveable Inventory	10,658,842	1,462,630	(1,926,859)	10,194,613
Sub-Specialty Medical Clinic	214,198	0	0	214,198
Modular Medical Office Building	560,323	0	0	560,323
OB/GYN Clinic Moveable Equipment	0	34,000	0	34,000
OB/GYN Clinic Goodwill	0	169,583	0	169,583
Total Capital Assets being depreciated	<u>22,911,735</u>	<u>1,748,988</u>	<u>(1,926,859)</u>	<u>22,733,864</u>
Less Accumulated Depreciation	<u>(14,513,339)</u>	<u>(1,307,627)</u>	<u>1,926,859</u>	<u>(13,894,107)</u>
Total Capital Assets being depreciated, net	<u>8,398,396</u>	<u>441,361</u>	<u>0</u>	<u>8,839,757</u>
Total Capital Assets, Net	<u>\$ 9,392,216</u>	<u>\$ 450,231</u>	<u>\$ 0</u>	<u>\$ 9,842,447</u>
2004				
Capital Assets Not Being Depreciated				
Land	\$ 802,521	\$ 108,348	\$ 0	\$ 910,869
Construction in Progress	82,951	0	0	82,951
Total Capital Assets not being depreciated	<u>885,472</u>	<u>108,348</u>	<u>0</u>	<u>993,820</u>
Capital Assets Being Depreciated				
Building & Fixed Equipment	11,311,755	166,617	0	11,478,372
Moveable Inventory	9,893,231	788,111	(22,500)	10,658,842
Sub-Specialty Medical Clinic	214,198	0	0	214,198
Modular Medical Office Building	560,323	0	0	560,323
Total Capital Assets being depreciated	<u>21,979,507</u>	<u>954,728</u>	<u>(22,500)</u>	<u>22,911,735</u>
Less Accumulated Depreciation	<u>(13,361,728)</u>	<u>(1,174,111)</u>	<u>22,500</u>	<u>(14,513,339)</u>
Total Capital Assets being depreciated, net	<u>8,617,779</u>	<u>(219,383)</u>	<u>0</u>	<u>8,398,396</u>
Total Capital Assets, Net	<u>\$ 9,503,251</u>	<u>\$ (111,035)</u>	<u>\$ 0</u>	<u>\$ 9,392,216</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Depreciation and amortization totaled \$1,307,615 and \$1,174,111 in 2005 and 2004, respectively, including depreciation expense charged to net non-operating income of \$31,527 in 2005 and \$40,281 in 2004.

<u>Foundation:</u>	Beginning Balance	Increases	Decreases	Ending Balance
	_____	_____	_____	_____
2005				
<hr/>				
Capital Assets Being Depreciated				
Equipment	\$ 10,702	\$ 0	\$ 0	\$ 10,702
Total Capital Assets being depreciated	10,702	0	0	10,702
Less Accumulated Depreciation	(7,492)	(2,140)	0	(9,632)
Total Capital Assets, Net	<u>\$ 3,210</u>	<u>\$ (2,140)</u>	<u>\$ 0</u>	<u>\$ 1,070</u>
2004				
<hr/>				
Capital Assets Being Depreciated				
Equipment	\$ 10,702	\$ 0	\$ 0	\$ 10,702
Total Capital Assets being depreciated	10,702	0	0	10,702
Less Accumulated Depreciation	(5,350)	(2,142)	0	(7,492)
Total Capital Assets, Net	<u>\$ 5,352</u>	<u>\$ (2,142)</u>	<u>\$ 0</u>	<u>\$ 3,210</u>

Depreciation and amortization totaled \$2,140 and \$2,142 in 2005 and 2004, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

11. LONG-TERM DEBT AND LEASES

	December 31,	
	2005	2004
County of Holmes Hospital Revenue Bonds, Series A, payable to the U.S. Farmers Home Administration (FmHA), dated April 10, 1991, due in 30 annual installments of principal plus interest at 5.875%, collateralized by the Hospital's revenue	\$ 0	\$ 906,835
Obligations under capital lease	195,699	270,989
Total	195,699	1,177,824
Less: current portion	78,553	130,290
Long term portion	\$ 117,146	\$ 1,047,534

The Hospital Revenue Bonds were paid off early in 2005.

The Hospital has entered into a non-cancelable lease agreement for equipment. These capital leases are due in monthly installments including interest at rates ranging from 4.4%. They expire at various times through 2008 and are collateralized by the equipment leased.

	December 31,	
	2005	2004
Cost of equipment under capital lease	\$ 378,068	\$ 378,068
Less: accumulated amortization	141,049	54,867
Net carrying amount	\$ 237,019	\$ 323,201

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2005. Equipment operating lease expense totaled \$204,757 in 2005 and \$172,067 in 2004.

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 reviewing the lease on an annual basis. Office lease expense totaled \$208,163 in 2005 and \$229,774 in 2004.

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 three additional three year terms. Lease expense was \$65,295 in 2005 and \$13,566 in 2004.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Minimum payments on these obligations to maturity as of December 31, 2005 are as follows:

	Capital Leases	Operating Leases	Total
2006	\$ 85,352	\$ 124,482	\$ 209,834
2007	85,352	65,295	150,647
2008	35,563	65,295	100,858
2009	0	65,295	65,295
2010	0	65,295	65,295
2011-2014	0	217,650	217,650
Subtotal	206,267	603,312	809,579
Less amount representing interest	10,568	0	10,568
Total	\$ 195,699	\$ 603,312	\$ 799,011

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximates the fair value at December 31, 2005. The current rates and terms offered to the Hospital are comparable to the weighted averaged interest rates and terms of the current outstanding long-term debt and capital leases.

12. CHARITY CARE

The Hospital also 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 services and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy are approximately \$1,157,500 and \$1,260,000 in 2005 and 2004, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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, 2005 and 2004 are as follows:

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Gross patient service revenue	\$ 39,949,256	\$ 38,702,788
Revenue deductions:		
Provision for contractual allowances	13,644,592	12,896,585
Provision for prompt payment discounts	940,932	687,031
Total revenue deductions	<u>14,585,524</u>	<u>13,583,616</u>
Net patient service revenue	<u>\$ 25,363,732</u>	<u>\$ 25,119,172</u>

14. PENSION PLANS

Public Employees Retirement System

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member Directed Plan (MD), and the Combined Plan (CO). PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries of the TD and CO plans. Members of the MD plan do not qualify for ancillary benefits. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43251-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

Plan members are required to contribute 9.5% of their annual covered salary to fund pension obligations and the Hospital is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2005, 2004, and 2003 were approximately \$1,379,000, \$1,290,000 and \$1,160,000.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

15. POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Public Employees Retirement System of Ohio ("System"), the System provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary survivor recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 15 – Pension Plans, the employer contribution rate to the System was 13.55% of covered payroll. Of covered payroll, 4% was the portion that was used to fund health care in 2004, the latest information available.

The Other Post-Employment Benefits (OPEB) is a standardized disclosure measure of the present value of OPEB adjusted for the effects of payroll increases and health care premium increases. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due. The System does not make separate measurements of assets and OPEB for individual employers.

As of December 31, 2005, the unaudited estimated net assets available for future OPEB payments were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion respectively.

16. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$122,093 and \$108,861 for 2005 and 2004, respectively. Advertising expenses are included in operating expenses in these financial statements

17. 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

18. 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 2005 and 2004 resulted from the following:

	<u>Beginning Balance</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ending Balance</u>
2005	\$ 135,680	\$ 0	\$ 31,527	\$ 104,153
2004	\$ 175,961	\$ 0	\$ 40,281	\$ 135,680

19. 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.

20. RELATED PARTY TRANSACTIONS

Joel Pomerene Memorial Hospital has provided funding to the Foundation totaling \$292 and \$840 for the years ended December 31, 2005 and 2004, respectively.

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

21. INCOME GRANTS AND FORGIVENESS OF EDUCATIONAL LOANS

As part of the hospitals recruitment program for new physicians, they offer income grants and forgiveness of educations loans in exchange for a commitment to a minimum term of service. As of December 31, 2005 and 2004, the loan receivable in connection with these income grants and forgiveness of education loans was \$489,519 and \$350,021, respectively. The loans will be forgiven over time as the physicians fulfill their committed term of service. \$244,134 is set to be forgiven in 2006. For the years ended December 31, 2005 and 2004 the Hospital forgave \$346,480 and \$313,104, respectively, in connection with these loans receivable. During 2005 the Hospital provided income grants totaling to six physicians. As of December 31, 2005, the hospital was committed to make \$147,983 of additional income grants.

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

* * * *

Report Letters

December 31, 2005

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

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 1, 2006

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

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 GOVERNMENTAL AUDITING STANDARDS

We have audited the financial statements of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) as of and for the year ended December 31, 2005, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 1, 2006. We have 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 Joel Pomerene Memorial Hospital's and Joel Pomerene Foundation's (Component Unit) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted immaterial opportunities to strengthen internal controls over their financial reporting that reported to management of Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit) in a separate letter dated March 1, 2006.

Compliance and Other Matters

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

Joel Pomerene Memorial Hospital
Internal Control Over Financial Reporting

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 1, 2006

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

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

Compliance

We have audited the compliance of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio, 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 each of its major federal programs for the year ended December 31, 2005. Joel Pomerene Memorial Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Joel Pomerene Memorial Hospital's management. Our responsibility is to express an opinion on Joel Pomerene Memorial 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 Joel Pomerene Memorial 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 on Joel Pomerene Memorial Hospital's compliance with those requirements.

In our opinion, Joel Pomerene Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Joel Pomerene Memorial Hospital
Report on Compliance

Internal Control Over Compliance

The management of Joel Pomerene Memorial 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 Joel Pomerene Memorial 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Hea & Associates, Inc.

**JOEL POMERENE MEMORIAL HOSPITAL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Health and Human Services:					
Health Care and Other Facilities Grant	93.887	1 C76HF02704-01-00	\$ 738,119	\$ 738,119	\$ -
Total Federal Assistance			<u>\$ 738,119</u>	<u>\$ 738,119</u>	<u>\$ -</u>

**JOEL POMERENE MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Health Care and Other Facilities CFDA # 93.887
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted



**Auditor of State
Betty Montgomery**

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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
MAY 23, 2006**