Joel Pomerene Memorial Hospital

Combined Financial Statements

For the Fiscal Years Ended
December 31, 2012 and 2011

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. 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. Joel Pomerene Memorial Hospital is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

June 18, 2013

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

JOEL POMERENE MEMORIAL HOSPITAL

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April 16, 2013

To the Board of Trustees
Joel Pomerene Memorial Hospital
Holmes County, Ohio
981 Wooster Road
Millersburg, OH 44654

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying combined financial statements of Joel Pomerene Memorial Hospital, Holmes County, Ohio (the Hospital), a business-type activity of Holmes County, Ohio, as of and for the years ended December 31, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the Hospital's combined financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these combined financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about combined financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Joel Pomerene Memorial Hospital, Holmes County, Ohio, as of December 31, 2012, and 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the combined financial statements. Although this information is not part of the combined financial statements, the Governmental Accounting Standards Board considers it essential for placing the combined financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2013, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Rea & Associates, Inc.

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, 2012 and 2011. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- Net positions increased $374,244 from $22,914,838 at December 31, 2011 to $23,289,082 at December 31, 2012.

- Operating loss was $71,594 for 2011 and operating income was $338,315 for 2012.

- Net accounts receivable decreased $909,247 from $3,979,849 at December 31, 2011 to $3,070,602 at December 31, 2012. Net days in accounts receivable changed from 49 at December 31, 2011 to 42 at December 31, 2012.

- From December 31, 2011 to December 31, 2012, total assets increased $516,241; total liabilities increased $141,997 and current liabilities increased $111,390.

- Net cash flows provided from operating activities were $1,460,782 during 2011 and $2,722,625 during 2012.

Using This Annual Report

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

Joel Pomerene Memorial Hospital (the Hospital), a business-type activity of Holmes County, is organized as a county hospital under the provisions of the general 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 Balance Sheet and Statement of Operations and Changes in Net Positions

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net positions report information about the Hospital's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net positions and changes in them. You can think of the Hospital's net positions - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net positions are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Positions

Pomerene Hospital's net positions were $22,919,888, $22,914,838 and $23,289,082 in 2010, 2011, and 2012, respectively. Table 1 provides a summary of the Hospitals total net positions for 2012 compared to 2011 and 2010.

Table 1
Net Positions

	2012	2011	2010
Assets			
Current Assets	$ 8,136,805	$ 7,817,704	$ 7,062,388
Assets Whose Use is Limited	6,678,721	5,909,993	6,019,720
Other Assets	21,884	0	0
Capital Assets	11,894,838	12,488,310	13,184,741
Total Assets	26,732,248	26,216,007	26,266,849
Liabilities:			
Current Liabilities	2,173,016	2,061,626	1,932,922
Long-Term Liabilities	1,270,150	1,239,543	1,414,039
Total Liabilities	3,443,166	3,301,169	3,346,961
Net Positions			
Net Investment in Capital Assets	10,396,991	11,027,272	11,569,539
Restricted	658,837	733,368	731,290
Unrestricted	12,233,254	11,154,198	10,619,059
Total Net Positions	$ 23,289,082	$ 22,914,838	$ 22,919,888

The Hospital transfers excess cash to assets limited as to use. The assets limited as to use at the end of 2012 were $6,678,721 compared to $5,909,993 and $6,019,720 at the end of 2011 and 2010, respectively.

The primary change in the Hospital's net positions is its income (loss) from operations – the difference between total operating revenues and total operating expenses incurred to perform those services. In fiscal year 2012, the Hospital experienced a profit from operations of $338,315, following the previous year's loss from operations of $71,594. The primary contribution to the fiscal year 2012 profit from operations was a decrease in operating expenses, offset by an increase in EHR incentive payments. Total operating expenses decreased 1.1%, or $329,701 and operating revenue increased .26% or $80,208. The most significant decreases included salaries and wages of approximately $351,580.

Operating Results and Changes in the Hospital's Net Positions

Table 2 shows the changes in revenues and expense for 2012 compared to 2011 and 2010:

	2012	2011	2010
Revenue			
Net Patient Service Revenue	$ 28,531,330	$ 29,852,231	$ 29,012,626
Other Revenues	2,326,574	925,465	860,192
Total Revenue	30,857,904	30,777,696	29,872,818
Operating Expenses			
Salaries and Wages	12,174,726	12,526,306	12,063,073
Employee Benefits	3,215,567	3,361,570	3,383,354
Supplies and Other	8,130,590	8,279,098	8,343,295
Medical Professional Fees	5,687,708	5,298,383	5,261,701
Depreciation	1,249,096	1,357,732	1,493,526
Other	61,902	26,201	8,284
Total Expenses	30,519,589	30,849,290	30,553,233
Operating Income (Loss)	338,315	(71,594)	(680,415)
Non-Operating Income	35,326	44,416	58,669
Change in Fair Value of Investments	603	22,128	2,124
Change In Net Positions	$ 374,244	$ (5,050)	$ (619,622)

Net Patient Service Revenues

Compared to 2011, net patient service revenues decreased $1,320,901 in 2012.

For fiscal year 2011, the Hospital Board of Trustees approved a price increase of 2.25%. Inpatient admissions decreased 15% and outpatient registrations remained flat for 2012.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross patient service revenues were 48% in 2012 and 49% in 2011.

Charity care for 2012 increased 15% when compared to 2011 levels. In the 1980's the State of Ohio developed a program designed to help hospitals address the increasing number of low income, special needs patients. The Hospital Care Assurance Program (HCAP) is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of funds is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment. For 2012, Pomerene Hospital's HCAP distribution was $294,066 more than its assessment, compared to $144,078 in 2011.

Operating Expenses

Total operating expenses in 2012 decreased from 2011 levels by $329,701 or 1.1 %.

Salary & Wages

Total full time equivalents decreased 4.2% from 2011 to 2012.

Employee Benefits

The amounts paid relating to employee benefits for the Hospital decreased $146,003 from 2011 to 2012.

Supplies and Other

Supplies decreased $148,508 in 2012 when compared to 2011.

Medical and Professional Fees

Medical and professional fees increased $389,325 in 2012 when compared to 2011.

Nonoperating Revenues and Expenses

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

The Hospital's Cash Flows

The Hospital has positive cash flow of $2,139,737 in 2012.

Capital Assets

Business-type capital assets decreased from $12,488,310 in 2011 to $11,894,838 in 2012. The decrease relates to $1,249,095 in depreciation expense, offset by $658,855 in capital additions. Major capital additions include the purchase of computer equipment and anesthesia machines.

Debt

At December 31, 2012, the Hospital had $1,497,846 in outstanding borrowings under notes payable and capital leases. In 2012, the Hospital entered into a capital lease for $296,667. In 2011, the Hospital entered into two capital leases for $55,068. The Hospital has a notes payable outstanding for $1,025,000 which contains certain restrictive covenants that the Hospital was in compliance with at December 31, 2012.

Other Economic Factors

The Hospital's Board and management considered many factors when setting the 2012 budget. Of primary importance in setting the budget was the status of the local economy, which takes into account market focus and other environmental factors such as the following:

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

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

The 2013 Operating Budget

The Board of Trustees approved the 2013 Operating Budget at its November 2012 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 2013 budget has 3% lower net revenues compared to 2012.

The 2013 Hospital only budget calls for operating gain of $287,576 or a 1% operating margin.

Contacting the Hospital's Management

This financial report is intended to provide the people of Holmes County, the state and federal governments, and our debt holders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it receives from the services it provides. If you have any questions about this report or need additional information, we welcome you to contact the Chief Financial Officer at 981 Wooster Road, Millersburg, Ohio 44654.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 3,621,971	$ 2,277,582
Investments	711,549	684,929
Patient Accounts Receivable, Net of Uncollectible Accounts of $1,453,500 in 2012 and $1,890,500 in 2011	3,070,602	3,979,849
Inventories	357,503	510,682
Prepaid Expenses and Other Assets	375,180	364,662
Total Current Assets	8,136,805	7,817,704
NON CURRENT ASSETS:		
Other	21,884	0
Assets Limited as to Use	6,678,721	5,909,993
Capital Assets, Net of Depreciation	11,894,838	12,488,310
Total assets	$ 26,732,248	$ 26,216,007
LIABILITIES AND NET POSITIONS		
CURRENT LIABILITIES:		
Accounts Payable	$ 282,779	$ 537,997
Accrued Salaries, Wages and Employee Benefits	1,253,538	1,256,171
Other Accrued Expenses	409,003	45,962
Current Portion of Long Term Debt and Leases	227,696	221,496
Total current liabilities	2,173,016	2,061,626
LONG-TERM DEBT, NET OF CURRENT PORTION	1,270,150	1,239,543
Total liabilities	3,443,166	3,301,169
NET POSITIONS:		
Net Investment in Capital Assets	10,396,991	11,027,272
Restricted by Donor For Specific Uses	658,837	733,368
Unrestricted	12,233,254	11,154,198
Total net positions	23,289,082	22,914,838
Total Liabilities and Net Positions	$ 26,732,248	$ 26,216,007

See accompanying notes to the combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUE:		
Net Patient Service Revenue	$ 28,531,330	$ 29,852,231
Other Operating Revenue	2,326,574	925,465
Total Revenue	30,857,904	30,777,696
EXPENSES:		
Salaries and Wages	12,174,726	12,526,306
Employee Benefits	3,215,567	3,361,570
Supplies and Other	8,130,590	8,279,098
Medical Professional Fees	5,687,708	5,298,383
Depreciation	1,249,096	1,357,732
Other	61,902	26,201
Total Expenses	30,519,589	30,849,290
OPERATING INCOME (LOSS)	338,315	(71,594)
NON-OPERATING GAINS		
Non-Operating Income, Net	35,326	44,416
Change in Fair Value of Investments	603	22,128
Total Non-Operating Gains	35,929	66,544
CHANGE IN NET POSITIONS	374,244	(5,050)
NET POSITIONS, BEGINNING OF YEAR	22,914,838	22,919,888
NET POSITIONS, END OF YEAR	$ 23,289,082	$ 22,914,838

See accompanying notes to the combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Patients and Third-Party Payors	$ 29,440,577	$ 29,962,312
Cash Paid to Suppliers for Services and Goods	(13,651,600)	(13,602,810)
Cash Paid to Employees and for Related Benefits	(15,392,926)	(15,833,185)
Other Operating Revenue Received	2,326,574	934,465
Net Cash Provided By Operating and Nonoperating Activities	2,722,625	1,460,782
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions and Construction of Capital Assets	(358,957)	(606,233)
Principal Payments on Capital Leases	(209,860)	(159,231)
Principal Payments on Long Term Debt	(50,000)	(50,000)
Net Cash Used in Capital and Related Financing Activities	(618,817)	(815,464)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	35,326	44,416
Change in Fair Value of Investments	603	22,128
Net Cash Provided By Investing Activities	35,929	66,544
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,139,737	711,862
CASH AND CASH EQUIVALENTS, Beginning of year	8,872,504	8,160,642
CASH AND CASH EQUIVALENTS, End of year	$ 11,012,241	$ 8,872,504
Cash and Cash Equivalents Include the Following:		
Cash and equivalents	$ 3,621,971	$ 2,277,582
Investment Cash and Cash Equivalents	711,549	684,929
Assets Limited as to Use Cash and Cash Equivalents:		
Board Designated for Future Capital Improvements	6,618,900	5,850,297
Funds Available for Future Construction and Equipment	59,821	59,696
Total Cash and Cash Equivalents	$ 11,012,241	$ 8,872,504
Supplemental Disclosure of Cash Flow Information:		
Capital Assets Acquired Under Capital Leases	$ 296,667	$ 55,068
A Reconciliation of the Loss From Operations to Net Cash Flows Provided by Operating Activities is as Follows:		
Income/(Loss) From Operations	$ 338,315	$ (71,594)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by Operating Activities:		
Depreciation	1,249,096	1,357,732
Changes in Assets and Liabilities:		
(Increase) Decrease in Patient Accounts Receivable	909,247	46,499
(Increase) Decrease in Pledges Receivable	0	9,000
(Increase) Decrease in Inventories	153,179	30,615
(Increase) Decrease in Prepaid Expenses and Other Assets	(32,402)	(83,423)
Increase (Decrease) in Accounts Payable	(255,218)	59,512
Increase (Decrease) in Accrued Expenses	360,408	48,859
Increase (Decrease) in Third-Party Settlements	0	63,582
Net Cash Provided by Operating Activities	$ 2,722,625	$ 1,460,782

See accompanying notes to the combined financial statements.

1. NATURE OF OPERATIONS

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards (GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification that do not conflict with or contradict GASB pronouncements.

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

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

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

Investments
During fiscal year 2012, the Organization had investments in common stock, mutual funds, government securities and corporate notes. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) is included in nonoperating gains (losses) unless the income or loss is restricted by donor or law.

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

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

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

Assets Limited as to Use
Assets limited as to use consist of invested funds designated by the Board of Trustees for future capital improvements, funds invested in accordance with agreements with a third-party, and donor restricted funds.

Capital Assets

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

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

Charity Care

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

Federal Income Tax

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

Net Positions

Net Positions represent the difference between assets and liabilities. Net Positions invested in capital Positions, net of related debt consist of capital Positions, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those Positions. Net Positions 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 Positions are available.

Use of Estimates

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

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Assets measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 255,822	$ 0	$ 0	$ 255,822
Equity Securities	333,757	0	25,000	358,757
United States Government Obligations	0	142,002	0	142,002
Total	$ 589,579	$ 142,002	$ 25,000	$ 756,581

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

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

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

A reconciliation of activity for 2012 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

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

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

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

4. DEPOSITS AND INVESTMENTS

At December 31, 2012 and 2011 the carrying amount of the Organization's bank deposits for all funds was $10,255,660 and $8,206,185 respectively; and the bank balance was $10,565,773 and $8,344,941, respectively. Of the bank balance, $1,252,684 and $1,408,833 at December 31, 2012 and 2011, respectively, is covered by Federal Depository Insurance. Of the remaining balance, $0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name, $9,313,089 and $6,936,107, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Organization's name. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

Investments **-**Investments of the Organization are reported at fair value. As of December 31, 2012 and 2011 the Organization had the following investments:

	December 31, 2012		December 31, 2011	
	Cost	Market	Cost	Market
Cash and Cash Equivalents	$ 8,588,552	$ 8,588,552	$ 6,319,340	$ 6,319,340
Certificates of Deposit	1,975,881	1,977,221	2,023,143	2,025,601
U. S. Government Obligations	141,735	142,002	60,895	59,161
Mutual Funds	240,091	255,822	253,552	239,322
Corporate Notes	0	0	10,007	10,067
Equity Securities	332,792	333,757	75,866	332,769
Total	$ 11,279,051	$ 11,297,354	$ 8,742,803	$ 8,986,260

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

Credit risk -The Organization's investment credit or market ratings are summarized below:

Moody's	S & P	Morning Star	Entity	Fair Value	Maturities in Years (Less than 1)	Maturities in Years (1-5)	As Part of Total Investments
N/A - 1	N/A - 1	N/A - 1	Commercial Savings Bank Common Stock	$ 145,792	N/A -3	N/A -3	19.9%
N/A - 1	N/A - 1	N/A - 1	Killbuck Savings Bank Common Stock	176,645	N/A -3	N/A -3	24.2%
N/A - 1	N/A - 1	N/A - 1	Newell-Rubbermaid Common Stock	3,162	N/A -3	N/A -3	0.4%
N/A - 2	N/A - 2	N/A - 2	U. S. Treasury Bonds	142,002	30,237	0	19.4%
		3 star rating	Federated Mutual Funds-Equity	50,221	N/A -3	N/A -3	6.9%
		3 star rating	Fidelity Mutual Funds-Equity	30,941	N/A -3	N/A -3	4.2%
		3 star rating	T. Rowe Price Mutual Funds-Equity	96,508	N/A -3	N/A -3	13.2%
		3 star rating	Vanguard Mutual Funds-Equity	86,310	N/A -3	N/A -3	11.8%
			Total	$ 731,581	$ 30,237	$ 0	100.0%

N/A - 1: Common Stock not publicly traded
N/A - 2: Exempt from ratings since explicitly guaranteed by a U. S. Government Agency
N/A - 3: Stock investments, no maturity period to report

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

5. RESTRICTED NET POSITIONS

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

Foundation's restricted net positions for December 31, 2012 is summarized below.

	Balance 12/31/2011	Contributions	Released or Expended	Adjustments	Balance 12/31/2012
Restricted Net Assets:					
Capital Campaign					
-Capital Additions to Joel Pomerene Memorial Hospital	$ 184,697	$ 0	$ 38,333	$ 0	$ 146,364
Harold B. Miley Grant					
-Nursing Education and Scholarship	481,040	38,971	11,838	0	508,173
Ken Hochstelter Memorial					
-Radiology Education	4,720	0	4,720	0	0
Lois Clark Memorial					
-Nursing Education and Scholarship	2,684	0	2,170	0	514
Memorials Fund					
-General Memorial Fund	670	0	0	0	670
Stan Boyd Emergency Fund					
-Prescription Purchases	2,941	0	420	0	2,521
OB Lifting Hearts					
-Bereavement Program	230	733	267	0	696
OB Memory Garden					
-Bereavement Memory Garden	6,412	12,964	19,376	0	0
Emergency Medical Fund					
-Prescription Purchases	(26)	0	2,475	2,400	(101)
Elisa Gailey Estate					
-Elderly/Handicapped Parking Lot	50,000	0	50,000	0	0
Total	$ 733,368	$ 52,668	$ 129,599	$ 2,400	$ 658,837

Foundation's restricted net positions for December 31, 2011 is summarized below.

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

6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2012	December 31, 2011
Total Patient Accounts Receivable	$ 6,569,239	$ 7,898,878
Less Allowance For:		
Contractual Adjustments	2,045,137	2,028,529
Uncollectible Amounts	1,453,500	1,890,500
Net Patient Accounts Receivable	$ 3,070,602	$ 3,979,849

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

	December 31, 2012		December 31, 2011	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	15%	21%	11%	22%
Medicaid	9%	12%	11%	14%
Commercial and Other	34%	42%	28%	39%
Self-Pay	42%	25%	50%	25%
Total	100%	100%	100%	100%

7. PATIENT SERVICE REVENUE

The Hospital has agreements with payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

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

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

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Medicare cost reports have been settled through 2010 and Medicaid cost reports have been settled through 2006.

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

8. CAPITAL ASSETS

Capital asset activity for the year ended December, 31, 2012 was as follows:

	2011	Additions	Retirements	2012
Land	$ 601,920	$ 0	$ 0	$ 601,920
Land Improvements	976,002	0	0	976,002
Construction in Progress	0	0	0	0
Building and Fixed Equipment	17,925,235	361,630	0	18,286,865
Moveable Equipment	11,774,278	297,226	(10,872)	12,060,632
Sub-Specialty Medical Clinic	214,198	0	0	214,198
Modular Medical Office Building	560,323	0	0	560,323
OB/GYN Clinic	17,000	0	0	17,000
Total Capital Assets	32,068,956	658,856	(10,872)	32,716,940
Less Accumulated Depreciation:				
Land Improvements	639,230	31,238	0	670,468
Building and Fixed Equipment	8,772,258	577,243	0	9,349,501
Moveable Equipment	9,558,372	640,415	(7,640)	10,191,147
Sub-Specialty Medical Clinic	144,190	10	0	144,200
Modular Medical Office Building	449,596	190	0	449,786
OB/GYN Clinic	17,000	0	0	17,000
Total Accumulated Depreciation	19,580,646	1,249,096	(7,640)	20,822,102
Capital Assets, Net	$ 12,488,310	$ (590,240)	$ (3,232)	$ 11,894,838

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

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

9. LONG TERM DEBT

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

	December 31, 2012	
	Notes Payable	Capital Lease
Debt Outstanding January 1, 2012	$ 1,075,000	$ 386,039
Additions of New Debt	0	296,667
Repayments	50,000	209,860
Debt Outstanding December 31, 2012	$ 1,025,000	$ 472,846
Expected to be Paid Within One Year	$ 50,000	$ 177,696

	December 31, 2011	
	Notes Payable	Capital Lease
Debt Outstanding January 1, 2011	$ 1,125,000	$ 490,202
Additions of New Debt	0	55,068
Repayments	50,000	159,231
Debt Outstanding December 31, 2011	$ 1,075,000	$ 386,039
Expected to be Paid Within One Year	$ 50,000	$ 171,496

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

	Note
2013	$ 50,000
2014	50,000
2015	50,000
2016	50,000
2017	50,000
2018	775,000
Total Payments	$ 1,025,000

The Hospital has entered into various non-cancelable capital lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 0% to 7.9%. They expire at various times through 2020 and are collateralized by the equipment leased.

The Hospital has entered into operating lease agreements for equipment, including both month-to-month leases and non-cancelable leases that expire at various dates through 2014. Operating lease expense for equipment totaled $514,690 in 2012 and $492,272 in 2011.

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

Office lease expense totaled $285,180 and $285,180 in 2012 and 2011, respectively.

Effective April 27, 2004, the Hospital signed a ten-year lease agreement for a medical facility in Berlin, Ohio. The lease expires in 2014 with the option to lease for additional three year terms. Lease expense was $66,417 and $66,417 in 2012 and 2011, respectively.

Minimum payments on these obligations to maturity as of December 31, 2012 are as follows:

	Capital Lease	Operating Lease	Total Lease
2013	$ 186,561	$ 351,597	$ 538,158
2014	98,951	69,669	168,620
2015	39,404	0	39,404
2016	34,355	0	34,355
2017	33,333	0	33,333
2018 - 2020	91,666	0	91,666
Total Payments	484,270	421,266	905,536
Less Amount Representing Interest	11,424	0	11,424
Total Payments	$ 472,846	$ 421,266	$ 894,112

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2012. The current rates and terms offered to the hospital are comparable to the weighted average interest rates and terms of the current outstanding long-term debt and capital leases.

In addition, the Hospital signed five-year sub-lease agreements with various businesses in the area for this office space. The total amount of rentals to be received in the future under these sub-leases is $196,397 as outlined below.

	Operating Sub-Lease
2013	$ 168,340
2014	28,057
Total Rental Receipts	$ 196,397

	December 31,	
	2012	2011
Cost of Equipment Under Capital Lease	$ 1,044,385	$ 747,718
Less: Accumulated Depreciation	228,667	114,166
Net Carrying Amount	$ 815,718	$ 633,552

The Hospital is required to meet certain covenants with respect to the Aultman note agreement, including minimum debt service coverage. The Hospital was in compliance with these covenants at December 31, 2012.

10. CHARITY CARE

The Hospital provides medical care without charge, or at a reduced cost, to residents of its community, primarily through (1) services provided at no charge to the uninsured; (2) the difference between public programs' payments (primarily Medicare and Medicaid) and the related costs of providing such services; and (3) the services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for service and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy were approximately $2,254,269 and $2,205,245 in 2012 and 2011, respectively.

11. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payer arrangements that provide fixed payments to the Hospital at amounts different than its established rates. Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2012 and 2011 are as follows:

	Year Ended December 31,	
	2012	2011
Gross Patient Service Revenue	$ 55,225,139	$ 58,580,314
Revenue Deductions:		
Provision for Contractual Allowances	24,670,411	26,357,735
Bad Debts	2,023,398	2,370,348
Total Revenue Deductions	26,693,809	28,728,083
Net Carrying Amount	$ 28,531,330	$ 29,852,231

12. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan - a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012 and 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for member in the Traditional Plan was 4% during calendar year 2012. The portion of employer contributions allocated to healthcare for members in the Combined Plan as 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

Year	Contribution
2012	$ 1,532,011
2011	$ 1,563,807
2010	$ 1,521,000

The portion of the Hospital's contribution in the above table that was made to fund post-employment health care benefits were approximately $437,696, $446,780, and $595,000, for 2012, 2011, and 2010, respectively.

Changes to the health care plan were adopted by OPERS Board of Trustees on September 12, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer’s contributions toward the health care fund after the end of the transition period.

13. MEDICAL MALPRACTICE CLAIMS

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

April 16, 2013

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the combined financial statements of Joel Pomerene Memorial Hospital, Holmes County, Ohio (the Hospital), a business-type activity of Holmes County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated April 16, 2013.

Internal Control over Financial Reporting

As part of our combined financial statement audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the combined financial statements, but not to the extent necessary to opine on the effectiveness of the Hospital's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Hospital's combined financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Hospital's combined financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

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JOEL POMERENE MEMORIAL HOSPITAL

WASHINGTON 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 2, 2013