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

* * * *

Financial Statements

December 31, 2004 and 2003

Auditor of State
Betty Montgomery

Board of Trustees
Joel Pomerene Memorial Hospital
981 Wooster Rd.
Millersburg, OH 44654

We have reviewed the Independent Auditor's Report of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 22, 2005

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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 2, 2005

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, 2004 and 2003, 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, 2004 and 2003, 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 2, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of out audit.

The Management's Discussion and Analysis 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.

Rea & Associates, Inc.

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, 2004 and 2003. 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 2004, total assets increased $766,756 over 2003 levels. Total business-type activities assets increased $634,357 and total component unit assets increased $132,399.

- Net accounts receivable increased $366,581. Net days in accounts receivable were 62.4 at December 31, 2004, compared to 60.4 at December 31, 2003 and 61.3 at December 31, 2002.

- Total liabilities decreased $46,857; current liabilities increased $49,433; other long term liabilities decreased $96,290 from December 31, 2003 to December 31, 2004.

- Net cash provided by the Hospital operating activities was $2,163,382 in 2004 compared to $3,271,147 in 2003. This decrease in cash provided is primarily due to the increase in accounts receivable and inventory, and a decrease in third party payables.

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 financers, 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 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 $20,362,186 to $21,175,799. Table 1 provides a summary of the Hospitals Net Assets for 2004, compared to 2003 and 2002.

Table 1
Net Assets

	Business-Type Pomerene Hospital			Component Unit Joel Pomerene Foundation			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Assets:									
Current Assets	$ 6,823,877	$ 6,565,192	$ 6,135,359	$ 1,097,954	$ 772,780	$ 520,744	$ 7,921,831	$ 7,337,972	$ 6,656,103
Assets Whose Use is Limited	7,192,299	6,705,592	5,510,396	0	0	0	7,192,299	6,705,592	5,510,396
Pledges Receivable		0	0	209,242	399,875	519,089	209,242	399,875	519,089
Capital Assets	9,392,216	9,503,251	9,634,708	3,210	5,352	7,492	9,395,426	9,508,603	9,642,200
Total Assets	23,408,392	22,774,035	21,280,463	1,310,406	1,178,007	1,047,325	24,718,798	23,952,042	22,327,788
Liabilities:									
Current Liabilities	2,495,465	2,446,032	2,802,980	0	0	0	2,495,465	2,446,032	2,802,980
Long-Term Debt	1,047,534	1,143,824	1,258,085	0	0	0	1,047,534	1,143,824	1,258,085
Total Liabilities	3,542,999	3,589,856	4,061,065	0	0	0	3,542,999	3,589,856	4,061,065
Net Assets:									
Capital Assets, Net of Related Debt	8,214,392	8,199,264	8,279,994	3,210	5,352	7,492	8,217,602	8,204,616	8,287,486
Unrestricted	11,651,001	10,984,915	8,939,404	40,617	27,821	28,076	11,691,618	11,012,736	8,967,480
Restricted		0	0	1,266,579	1,144,834	1,011,757	1,266,579	1,144,834	1,011,757
Total Net Assets	$ 19,865,393	$ 19,184,179	$ 17,219,398	$ 1,310,406	$ 1,178,007	$ 1,047,325	$ 21,175,799	$ 20,362,186	$ 18,266,723

In 2004, the cash position decreased $249,479 compared to 2003. Cash of business-type activities decreased $526,904, while cash from the Foundation increased $277,425.

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 2004 is $7,287,256 compared to $6,800,929 at the end of 2003.

Capital Assets

Business-type capital assets decreased from $9,503,251 to $9,382,216 in 2004. The decrease relates to $1,063,076 in capital additions, offset by $1,174,111 in depreciation expense. Major capital additions include land, a microscan walkaway system for the laboratory, a property at 12 Woodland Drive, a document management system for health information and two seven-drawer auxiliary units for pharmacy's medication administration system.

The only change to Foundation capital assets was $2,142 in depreciation expense.

Pledges Receivable and Pledge Revenue

At December 31, 2004 the net pledges receivable for the Joel Pomerene Foundation decreased $142,459 from the previous year. The total pledges receivable was $638,030 at December 31, 2004 and $780,461 at December 31, 2003 with an allowance for uncollectible pledges of $121,059 and $121,031, respectively.

The reason for the drop in 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 2004.

Revenues and Expenses

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

Table 2

Revenues and Expenses

	Business-Type Pomerene Hospital			Component Unit JP Foundation			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Revenue:									
Net Patient Services Revenue	$ 25,119,172	$ 23,844,364	$ 22,050,565	$ 0	$ 0	$ 0	$ 25,119,172	$ 23,844,364	$ 22,050,565
JP Foundation Revenues		0	0	161,345	205,703	1,087,652	161,345	205,703	1,087,652
Other Revenues	309,428	185,450	305,772		0	0	309,428	185,450	305,772
Total Revenues	25,428,600	24,029,814	22,356,337	161,345	205,703	1,087,652	25,589,945	24,235,517	23,443,989
Operating Expenses:									
Salaries and Wages	10,008,803	9,170,365	7,905,473	0	0	0	10,008,803	9,170,365	7,905,473
Emp. Benefits and Payroll Taxes	2,900,870	2,468,372	1,881,406	0	0	0	2,900,870	2,468,372	1,881,406
Supplies and Other	7,364,919	6,435,926	6,084,675	0	0	0	7,364,919	6,435,926	6,084,675
Medical/Professional Fees	1,715,179	1,592,635	2,213,345	0	0	0	1,715,179	1,592,635	2,213,345
Physician Recruit/Incentive	562,402	180,561	167,177	0	0	0	562,402	180,561	167,177
Provision for Bad Debts	1,017,096	1,011,306	821,634	0	0	0	1,017,096	1,011,306	821,634
Depreciation	1,133,830	1,141,187	1,182,604	0	0	0	1,133,830	1,141,187	1,182,604
Interest	95,617	106,723	111,445	0	0	0	95,617	106,723	111,445
JP Foundation Expenses		0	0	28,946	75,021	86,910	28,946	75,021	86,910
Total Expenses	24,798,716	22,107,075	20,367,759	28,946	75,021	86,910	24,827,662	22,182,096	20,454,669
Operating Income	629,884	1,922,739	1,988,578	132,399	130,682	1,000,742	762,283	2,053,421	2,989,320
Non Operating Income	56,093	81,229	126,579	0	0	0	56,093	81,229	126,579
NE Network Grant Expenses	(40,281)	(44,234)	(44,364)	0	0	0	(40,281)	(44,234)	(44,364)
Change Fair Value of Investments	35,518	5,053	4,270	0	0	0	35,518	5,053	4,270
Excess Revenues Over Expenses	$ 681,214	$ 1,964,787	$ 2,075,063	$ 132,399	$ 130,682	$ 1,000,742	$ 813,613	$ 2,095,469	$ 3,075,805

Net Patient Service Revenues

Compared to 2003, net patient service revenues increased $1,274,808 or 5.35%.

For fiscal year 2004, the Hospital Board of Trustees approved a 1.0% price increase. This increase was effective January 1, 2004. An additional 1.0% increase was approved by the Board and was effective June 1, 2004. Higher volumes in areas such as emergency room, radiology, and laboratory account for the remainder of the increase in net patient service revenue.

Inpatient Business Activity

Total admissions in 2004 decreased approximately 7.0% from 2003 levels. The decrease in admissions was due in part to the retirement of a part-time general surgeon. The mix of admissions has also changed:

Specialty	2004	2003	2002	2004 to 2003 % Change
Internal Medicine	858	943	888	-9.0%
General Surgery	169	241	202	-29.9%
Orthopedics	66	68	56	-2.9%
OB/GYN	200	162	195	23.5%
Family Practice	1,162	1,233	1,301	-5.8%
Emergency	10	6	4	66.7%
Total	2,465	2,653	2,646	-7.1%

Total patient days for 2004 decreased nearly 4.7% compared to 2003 and the average length of stay remained unchanged.:

Unit	2004 Patient Days	2001 Patient Days	2002 Patient Days	2004 to 2003 % Change
Medical	4,599	4,381	4,566	5.0%
Surgical	454	635	682	-28.5%
Pediatrics	171	285	285	-40.0%
Special Care	164	256	266	-35.9%
Maternity	1,004	1,102	1,040	-8.9%
Nursery	888	978	928	-9.2%
Total	7,280	7,637	7,767	-4.7%

Unit	2004 ALOS	2003 ALOS	2002 ALOS	2004 to 2003 % Change
Medical	4.0	3.9	4.1	2.6%
Surgical	2.9	2.9	2.9	0.0%
Pediatric	2.4	2.5	2.5	-4.0%
Special Care	1.0	1.8	1.9	-44.4%
Maternity	2.0	1.9	1.9	5.2%
Nursery	1.7	1.8	1.7	-5.6%
Total	3.0	3.0	3.2	0.0%

Outpatient Business Activity

The Hospital's outpatient business recorded a 12.8% growth, net of the 1.5% price adjustment. The areas the recorded the largest increases include radiology, laboratory, and emergency room.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross revenues were recorded at 35.1% in 2004, compared to 33.4% in 2003, an increase of 1.7%. In 2002, deductions from revenue were recorded at 33.2%. 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 2004 increased 11.5% when compared to 2003 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 2004, Pomerene Hospital's HCAP distribution was $556,621 more than its assessment, compared to $321,035 in 2003.

Operating Expenses

Total operating expenses in 2004 exceeded the 2003 levels by $2,645,566 or 11.93%. In 2003 total operating expenses exceeded 2002 by $1,727,427.

	Business-Type Pomerene Hospital			Component Unit Joel Pomerene Foundation			Total		
Category	2004	2003	2002	2004	2003	2002	2004	2003	2002
Salaries and Wages	$ 10,008,803	$ 9,170,365	$ 7,905,473		$ 0	$ 0	$ 10,008,803	$ 9,170,365	$ 7,905,473
Employee Benefits	2,900,870	2,468,372	1,881,406		0	0	2,900,870	2,468,372	1,881,406
Supplies and Other	7,364,919	6,435,926	6,084,675		0	0	7,364,919	6,435,926	6,084,675
Med/Prof Fees	1,715,179	1,592,635	2,213,345		0	0	1,715,179	1,592,635	2,213,345
Bad Debt Expense	1,017,096	1,011,306	821,634		0	0	1,017,096	1,011,306	821,634
Depreciation	1,133,830	1,141,187	1,182,604		0	0	1,133,830	1,141,187	1,182,604
All Other Expenses	658,019	287,284	278,622	28,946	75,021	86,910	686,965	362,305	365,532
Total	24,798,716	22,107,075	20,367,759	28,946	75,021	86,910	24,827,662	22,182,096	20,454,669

Salary & Wages

To remain competitive in the market place, the Board of Trustees approved hourly/salary pay adjustments as part of the 2004 Operating Budget. The adjustment totaled approximately $168,200.

Total FTEs increased 16.9 from 2003 to 2004, which accounts for approximately $680,000 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 as compared to $621,000 in 2003 and $601,000 in 2002.

Employee Benefits

The amounts paid relating to employee benefits increased nearly $430,000 from 2003 to 2004.

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 nearly $188,000.

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 showed an increase of $122,544 in 2004 when compared to 2003.

The 2005 Operating Budget

The Board of Trustees approved the 2005 Operating Budget at its November 2004 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 $3.15 million in additional revenues.

The overall price increase included in the budget was 3.0%. The 2005 budget calls for an excess of revenues over expense of $1,374,784 or 3.26% of net patient revenue.

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

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2004 AND 2003

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2004	**2003**	**2004**	**2003**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,268,162	$ 1,795,066	$ 205,748	$ 225,360
Investments	0	0	584,477	287,440
Patient, accounts receivable	4,296,726	3,930,145	0	0
Current portion of pledges receivable, less allowance for uncollectible pledges	0	0	307,729	259,555
Third party settlements	140,319	96,431	0	0
Other receivables	27,506	24,500	0	425
Inventories	400,794	403,064	0	0
Prepaid expenses and other assets	595,413	214,267	0	0
Notes and loans receivable	0	6,382	0	0
Current portion of assets limited as to use	94,957	95,337	0	0
Total current assets	6,823,877	6,565,192	1,097,954	772,780
NON CURRENT ASSETS:				
Pledges receivable, net of current portion, less allowance for uncollectible acounts	0	0	209,242	399,875
Assets limited as to use, net of current portion	7,192,299	6,705,592	0	0
Capital assets, net of depreciation	9,392,216	9,503,251	3,210	5,352
Total non current assets	16,584,515	16,208,843	212,452	405,227
Total assets	23,408,392	22,774,035	1,310,406	1,178,007
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long term debt and leases	130,290	160,163	0	0
Accounts payable	466,496	341,722	0	0
Accrued salaries, wages and employee benefits	1,603,365	1,680,182	0	0
Other accrued expenses	286,984	263,965	0	0
Deferred revenue	8,330	0	0	0
Total current liabilities	2,495,465	2,446,032	0	0
LONG TERM LIABILITIES:				
Debt and leases, less current portion	1,047,534	1,143,824	0	0
Total liabilities	3,542,999	3,589,856	0	0
NET ASSETS:				
Capital assets, net of related debt	8,214,392	8,199,264	3,210	5,352
Restricted - by donor for specific uses	0	0	1,266,579	1,144,834
Unrestricted	11,651,001	10,984,915	40,617	27,821
Total net assets	$ 19,865,393	$ 19,184,179	$ 1,310,406	$ 1,178,007

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, 2004 AND 2003

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2004	**2003**	**2004**	**2003**
REVENUE:				
Net patient service revenue	$ 25,119,172	$ 23,844,364	$ 0	$ 0
Contributions	0	0	109,104	2,175
Fund-raising income	0	0	16,975	17,206
Interest income	0	0	7,947	1,247
Contributions - Joel Pomerene Memorial Hospital	0	0	0	5,025
Public support - capital campaign	0	0	21,965	130,571
Grants	0	0	5,354	49,479
Other operating revenue	309,428	185,450	0	0
Total revenue	25,428,600	24,029,814	161,345	205,703
EXPENSES:				
Salaries and wages	10,008,803	9,170,365	0	0
Employee benefits and payroll taxes	2,900,870	2,468,372	0	0
Supplies and other	7,364,919	6,435,926	0	0
Medical professional fees	1,715,179	1,592,635	0	0
Physician recruiting and incentive	562,402	180,561	0	0
Provision for bad debts	1,017,096	1,011,306	0	0
Depreciation and amortization	1,133,830	1,141,187	2,142	2,140
Interest	95,617	106,723	0	0
Legal and professional fees	0	0	8,100	14,025
Fund-raising expenses	0	0	2,056	3,155
Consulting	0	0	0	905
AED Grant expenses	0	0	0	22,800
Diabetes Grant expenses	0	0	1,308	2,346
Medtronic Grant expenses	0	0	0	23,679
Guardianship Program expenses	0	0	2,428	0
Scholarships	0	0	5,000	0
Charity care expenses	0	0	2,116	148
Community support	0	0	0	1,088
Administrative	0	0	1,949	2,013
State filing fee	0	0	200	200
Donation expense	0	0	3,647	2,522
Total expenses	24,798,716	22,107,075	28,946	75,021
OPERATING INCOME (LOSS)	629,884	1,922,739	132,399	130,682
Net non-operating income	56,093	81,229	0	0
NE Network Grant - Net	(40,281)	(44,234)	0	0
Change in fair value of investments	35,518	5,053	0	0
INCREASE (DECREASE) IN NET ASSETS	681,214	1,964,787	132,399	130,682
NET ASSETS AT BEGINNING OF THE YEAR (restated)	19,184,179	17,219,392	1,178,007	1,047,325
NET ASSETS AT THE END OF THE YEAR	$ 19,865,393	$ 19,184,179	$ 1,310,406	$ 1,178,007

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, 2004 AND 2003

	Business-Type Activity Joel Pomerene Memorial Hospital		Component Unit Joel Pomerene Foundation	
	2004	**2003**	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from patients and third-party payers	$ 24,705,697	$ 23,221,432	$ 296,282	$ 247,356
Interest income	0	0	7,947	1,247
Cash paid to suppliers for services and goods	(9,865,253)	(8,499,064)	(26,804)	0
Cash payments to employees for services	(12,986,490)	(11,604,320)	0	(72,881)
Other operating revenue received	309,428	153,099	0	0
Net cash provided by operating activities	2,163,382	3,271,147	277,425	175,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisitions and construction of capital assets	(1,063,076)	(1,106,707)	0	0
Proceeds from sale of capital asset	0	20,300	0	0
Principal payments on capital leases	(72,163)	(82,977)	0	0
Principal payments on capital related debts	(54,000)	(350,250)	0	0
Interest paid on capital related debt and capital leases	(95,617)	(106,723)	0	0
Net cash used in capital and related financing activities	(1,284,856)	(1,626,357)	0	0
CASH FLOWS FROM INVESTING ACTIVITIES:				
Advances to physicians	6,382	(6,382)	0	0
Interest on investments	96,374	125,462	0	0
Net (purchases) and maturities of investments	(1,106,538)	(681,020)	(297,037)	(287,440)
Net cash provided by (used in) investing activities	(1,003,782)	(561,940)	(297,037)	(287,440)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(125,256)	1,082,850	(19,612)	(111,718)
CASH AND CASH EQUIVALENTS, Beginning of year	5,028,715	3,945,865	225,360	337,078
CASH AND CASH EQUIVALENTS, End of year	$ 4,903,459	$ 5,028,715	$ 205,748	$ 225,360
Cash and cash equivalents include the following:				
Cash and equivalents	$ 1,268,162	$ 1,795,066	$ 205,748	$ 225,360
Assets limited as to use cash and cash equivalents:				
Board designated for future capital improvements	3,592,027	3,190,379	0	0
Funds available for future construction and equipment	43,270	43,270	0	0
Total cash and cash equivalents	$ 4,903,459	$ 5,028,715	$ 205,748	$ 225,360
A reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows:				
Income from operations	$ 629,884	$ 1,922,739	$ 132,399	$ 130,682
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation and amortization	1,133,830	1,141,187	2,142	2,140
Bad debt expense	1,017,096	1,011,306	0	0
Interest expense	95,617	106,723	0	0
Loss on sale of capital asset	0	(32,351)	0	0
Changes in assets and liabilities:				
(Increase) decrease in patient accounts receivable	(366,581)	(227,101)	0	0
(Increase) decrease in pledges receivable	0	0	142,459	43,325
(Increase) decrease in other receivables	(3,006)	25,600	425	(425)
(Increase) decrease in inventories	2,270	(189,789)	0	0
(Increase) decrease in prepaid items	(381,146)	29,746	0	0
Increase (decrease) in accounts payable	124,774	(109,770)	0	0
Increase (decrease) in accrued expenses	(53,798)	14,288	0	0
Increase (decrease) in deferred revenue	8,330	0	0	0
Increase (decrease) in third-party settlements	(43,888)	(421,431)	0	0
Net cash provided by operating activities	$ 2,163,382	$ 3,271,147	$ 277,425	$ 175,722

See accompanying notes to the financial statements.

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. In addition, 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.

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). The most significant of the Reporting Entity's accounting policies are described below.

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.

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 2004, 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 2004 and 2003, approximately 32% and 30%, respectively, of the Hospital's gross patient revenue was derived from Medicare payments while 10% and 9% in 2004 and 2003, respectively was derived from Medicaid payments. Additionally, approximately 19% of the Hospital's total patient revenue was derived from individual self-payments in both 2004 and 2003. 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.

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.

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	$ 1,268,162	$ 7,287,256
Cash deposits	3,042,591	(3,042,591)
Certificates of Deposit	3,592,027	(3,592,027)
Interest receivable	0	(2,073)
Funds held by trustee	0	(268,032)
Construction deposits	43,270	(43,270)
Cash on hand	(600)	0
GASB Statement No. 3 deposits	$ 7,945,450	$ 339,263

The Hospital funds held by Holmes County and included in assets whose use is limited ($268,032 at December 31, 2004) are deposited in the name of Holmes County.

The Hospital may deposit funds not needed for immediate expenses in interest-bearing or non-interest-bearing accounts or in United States government obligations.

Deposits - At December 31, 2004, the carrying amount of the Hospital's deposits for all funds is $7,945,450 as compared to bank balances of $7,539,974. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, $405,994 is covered by Federal insurance programs and $7,133,980 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments - The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) insured; b) registered; or c) held by the Hospital or its agent in the Hospital's name. Risk Categories 2 and 3 include investments which are neither insured or registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Hospital's name.

	2004				
		Category		Reported	Fair
	1	2	3	Amount	Value
Common stock	$ 331,640	$ 0	$ 0	$ 331,640	$ 331,640
Mutual fund			7,623	7,623	7,623
Total investments	$ 331,640	$ 0	$ 7,623	$ 339,263	$ 339,263

Common stock with a cost of $47,837 and market value of $331,640 is not traded on a quoted market; therefore, the year-end market value is determined as the average of the high and low sales price for the last quarter of 2004.

<u>Joel Pomerene Foundation</u>

Deposits - At year-end the carrying amount of the Foundations deposits was $205,748 and the bank balance was $191,770, of which $100,000 was covered by federal depository insurance. Amounts over $100,000 are collateralized by the financial institution.

Investments - Investments are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) insured; b) registered; or c) held by the Foundation or its agent in the Foundation's name. Risk Categories 2 and 3 include investments which are neither insured or registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the Foundation's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Foundation's name.

		Category		Reported	Fair
	1	2	3	Amount	Value
Common stock	$ 125,675	$ 0	$ 0	$ 125,675	$ 125,675
Corporate Bonds			49,814	49,814	49,814
Government Securities			272,339	272,339	272,339
Certificates of Deposit	135,000			135,000	135,000
Mutual Fund				1,649	1,649
Total investments	$ 260,675	$ 0	$ 322,153	$ 584,477	$ 584,477

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2004	December 31, 2003
Total patient accounts receivable	$ 6,822,926	$ 6,572,894
Less allowances for:		
Contractual adjustments	1,511,200	1,627,749
Uncollectible adjustments	1,015,000	1,015,000
Net patient accounts receivable	$ 4,296,726	$ 3,930,145

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.

	December 31, 2004	December 31, 2003
Less than one year	$ 379,788	$ 307,241
One to five years	258,242	473,220
Total pledges receivable	$ 638,030	$ 780,461

As required by generally accepted accounting principles, the Foundation estimated an allowance for uncollectible pledges. The following schedule reconciles gross pledges received to the gross pledges, less the allowance and the discount to net present value.

	December 31, 2004	December 31, 2003
Gross pledges receivable	$ 638,030	$ 780,461
Allowance for uncollectible pledges	(121,059)	(121,031)
Net pledges receivable	$ 516,971	$ 659,430

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.

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, 2004	December 31, 2003
Internally designated for future capital improvements:		
Cash and cash equivalents	$ 3,042,591	$ 3,190,379
Certificates of deposit	3,592,027	2,992,539
Investments in common stock and mutual funds	339,263	303,744
Interest receivable	2,073	2,965
	6,975,954	6,489,627
Funds available for future construction - cash and cash equivalents	43,270	43,270
Held by trustee in connection with debt service	268,032	268,032
Total assets limited as to use	$ 7,287,256	$ 6,800,929
Assets limited as to use - current portion	$ 94,957	$ 95,337
Assets limited as to use - long term portion	7,192,299	6,705,592
Total assets limited as to use	$ 7,287,256	$ 6,800,929

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

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, 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

	Cost	Fair Value January 1, 2003	Fair Value December 31, 2003	Change in Fair Value
Common Stock	$ 47,837	$ 291,131	$ 296,146	$ 5,015
Mutual Fund	4,976	7,560	7,598	38
Total	$ 52,813	$ 298,691	$ 303,744	$ 5,053

10. CAPITAL ASSETS

Capital assets consist of the following:

Hospital:	Beginning Balance	Increases	Decreases	Ending Balance
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	885,472	108,348	0	993,820
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	21,979,507	954,728	(22,500)	22,911,735
Less Accumulated Depreciation	(13,361,728)	(1,174,111)	22,500	(14,513,339)
Total Capital Assets being depreciated, net	8,617,779	(219,383)	0	8,398,396
Total Capital Assets, Net	$ 9,503,251	$ (111,035)	$ 0	$ 9,392,216
2003				
Capital Assets Not Being Depreciated				
Land	$ 794,449	$ 8,072	$ 0	$ 802,521
Construction in Progress	55,310	27,641	0	82,951
Total Capital Assets not being depreciated	849,759	35,713	0	885,472
Capital Assets Being Depreciated				
Building & Fixed Equipment	11,172,671	142,878	(3,794)	11,311,755
Moveable Inventory	9,583,245	928,108	(618,122)	9,893,231
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	21,530,437	1,070,986	(621,916)	21,979,507
Less Accumulated Depreciation	(12,745,488)	(1,185,421)	569,181	(13,361,728)
Total Capital Assets being depreciated, net	8,784,949	(114,435)	(52,735)	8,617,779
Total Capital Assets, Net	$ 9,634,708	$ (78,722)	$ (52,735)	$ 9,503,251

Depreciation and amortization totaled $1,174,111 and $1,185,421 in 2004 and 2003, respectively, including depreciation expense charged to net non-operating income of $40,281 in 2004 and $44,234 in 2003.

Foundation:	Beginning Balance	Increases	Decreases	Ending Balance
2004				
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	$ 5,352	$ (2,142)	$ 0	$ 3,210
2003				
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	(3,210)	(2,140)	0	(5,350)
Total Capital Assets, Net	$ 7,492	$ (2,140)	$ 0	$ 5,352

Depreciation and amortization totaled $2,142 and $2,140 in 2004 and 2003, respectively.

11. LONG-TERM DEBT AND LEASES

	December 31, 2004	December 31, 2003
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	$ 906,835	$ 960,835
Obligations under capital lease	270,989	343,152
Total	1,177,824	1,303,987
Less: current portion	130,290	160,163
Long term portion	$ 1,047,534	$ 1,143,824

The Hospital Revenue Bonds require the Hospital to make monthly payments into debt service and reserve funds. Further, these bonds require the Hospital to maintain adequate insurance coverage and obtain FmHA permission prior to incurring any new debt.

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, 2004	December 31, 2003
Cost of equipment under capital lease	$ 378,068	$ 386,068
Less: accumulated amortization	54,867	36,768
Net carrying amount	$ 323,201	$ 349,300

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2005. Equipment operating lease expense totaled $149,490 in 2004 and $156,467 in 2003.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. The lease expires March 1, 2005, at which time the Hospital will have the option to renew the lease on an annual basis. Office lease expense totaled $229,774 in 2004 and $222,787 in 2003.

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 $13,566 in 2004.

Minimum payments on these obligations to maturity as of December 31, 2004 are as follows:

	Long-Term Debt	Capital Leases	Operating Leases	Total
2005	$ 91,000	$ 85,352	$ 243,340	$ 419,692
2006	96,000	85,352	306,558	487,910
2007	102,000	85,352	65,295	252,647
2008	108,000	35,563	65,295	208,858
2009	114,000	0	65,295	179,295
2010-2014	395,835	0	282,950	678,785
Subtotal	906,835	291,619	1,028,733	2,227,187
Less amount representing interest	0	20,630	0	20,630
Total	$ 906,835	$ 270,989	$ 1,028,733	$ 2,206,557

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximates the fair value at December 31, 2004. 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 $1,260,000 and $1,130,000 in 2004 and 2003, respectively.

14. 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, 2004 and 2003 are as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Gross patient service revenue	$ 38,702,788	$ 35,814,033
Revenue deductions:		
Provision for contractual allowances	12,896,585	11,394,418
Provision for prompt payment discounts	687,031	575,251
Total revenue deductions	13,583,616	11,969,669
Net patient service revenue	$ 25,119,172	$ 23,844,364

15. 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 8.5% 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, 2004, 2003, and 2002 were approximately $1,290,000, $1,160,000, and $983,000.

16. 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, 5% was the portion that was used to fund health care in 2003, 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, 2004, the unaudited estimated net assets available for future OPEB payments were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion respectively.

17. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was $108,861 and $78,761 for 2004 and 2003, respectively. Advertising expenses are included in operating expenses in these financial statements

18. 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.

19. 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 2004 and 2003 resulted from the following:

	Beginning Balance	Revenue	Expenses	Ending Balance
2004	$ 175,961	$ 0	$ 40,281	$ 135,680
2003	$ 220,195	$ 0	$ 44,234	$ 175,961

20. 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.

21. RELATED PARTY TRANSACTIONS

Joel Pomerene Memorial Hospital has provided funding to the Foundation totaling $840 and $5,025 for the years ended December 31, 2004 and 2003, respectively.

22. 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, 2004 and 2003, the loan receivable in connection with these income grants and forgiveness of education loans was $350,021 and $213,660, respectively. The loans will be forgiven over time as the physicians fulfill their committed term of service. $346,225 is set to be forgiven in 2005. For the years ended December 31, 2004 and 2003 the Hospital forgave $313,104 and $220,867, respectively, in connection with these loans receivable. During 2004 the Hospital provided income grants totaling to four physicians. As of December 31, 2004, the hospital was committed to make $431,983 of additional income grants.

March 2, 2005

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED BY *GOVERNMENT 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, 2004, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 2, 2005, which included an explanatory paragraph regarding the accounting change to GASB 34. 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.

Compliance

As part of obtaining reasonable assurance about whether Joel Pomerene Memorial Hospital's and Joel Pomerene Foundation's (Component Unit) basic 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*.

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 basic 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 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 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 2, 2005.

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

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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 5, 2005