Joel Pomerene Memorial Hospital
Holmes County, Ohio

Combined Financial Statements

For the Fiscal Years Ended
December 31, 2015 and 2014

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

We have reviewed the *Independent Auditor's Report* of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. 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.

Dave Yost
Auditor of State

June 28, 2016

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Holmes County, Ohio
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May 13, 2016

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 the Joel Pomerene Memorial Hospital, Holmes County, Ohio, a business-type activity of Holmes County, Ohio, and its subsidiaries (collectively the "Organization") as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Organization's combined financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Joel Pomerene Memorial Hospital and subsidiaries, Holmes County, Ohio as of December 31, 2015 and 2014, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1, the combined financial statements of the Organization are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of Holmes County that is attributable to the transactions of the Organization. They do not purport to, and do not, present fairly the financial position of Holmes County, Ohio as of December 31, 2015 and 2014, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 2, the Organization restated the net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As described in Note 16, management has, with approval from the Holmes County Commissioners, elected to convert from a county-owned hospital under Ohio Revised Code 339 to a private, not-for-profit hospital. The conversion process to private status was completed on January 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management’s Discussion and Analysis, Schedule of the Hospital’s Proportionate Share of the Net Pension Liability,* and *Schedule of Hospital Contributions* on pages 4–10, 39, and 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Organization's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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, 2015 and 2014. 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 $447,896 from $18,425,640 at January 1, 2015 (restated, see Note 2) to $18,873,536 at December 31, 2015.

- Operating income was $2,248,983 for 2014 and operating income was $390,211 for 2015.

- Net accounts receivable decreased $10,842 from $4,703,556 at December 31, 2014 to $4,692,714 at December 31, 2015. Net days in accounts receivable changed from 41 at December 31, 2014 to 43 at December 31, 2015.

- From December 31, 2014 to December 31, 2015, total assets decreased $29,315; total liabilities increased $9,807,104 and current liabilities increased $121,622 due to implementation of GASB 68.

- Net cash flows provided from operating activities were $3,141,689 during 2014 and $1,346,814 during 2015.

- The Hospital implemented GASB 68, which reduced net position as previously reported by $8.6 million.

Using This Annual Report

The Hospital's financial statements consist of three statements - a statement of net positions; 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, Health Professionals of Holmes County, and Joel Pomerene Foundation. All significant inter-company accounts and transactions have been eliminated from the financial statements.

The Statement of Net Positions 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 statement of net positions and statement of operations and changes in net positions report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities and deferred outflows/inflows of resources 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 capital and related 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 $24,692,204, $27,005,347 and $18,873,536 in 2013, 2014, and 2015, respectively. Table 1 provides a summary of the Hospitals total net positions for 2015 compared to 2014 and 2013.

Table 1
Net Positions

	2015	2014	2013
Assets			
Current Assets	$ 11,712,595	$ 11,961,025	$ 9,602,501
Assets Whose Use is Limited	7,446,179	6,873,270	6,364,657
Net Pension Asset	49,333	0	0
Other Assets	60,900	43,673	33,038
Capital Assets	11,941,353	12,361,707	12,130,962
Total Assets	31,210,360	31,239,675	28,131,158
Deferred Outflows of Resources	1,897,294	0	0
Liabilities:			
Current Liabilities	2,525,356	2,646,978	2,300,183
Long-Term Liabilities	11,516,076	1,587,350	1,138,771
Total Liabilities	14,041,432	4,234,328	3,438,954
Deferred Inflows of Resources	192,686	0	0
Net Positions			
Net Investment in Capital Assets	10,354,003	10,585,927	10,822,601
Restricted	567,728	568,785	701,341
Unrestricted	7,951,805	15,850,635	13,168,262
Total Net Positions	$ 18,873,536	$ 27,005,347	$ 24,692,204

During 2015, the Hospital adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Hospital's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension asset/liability equals the Hospital's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Hospital is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Hospital's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the Hospital is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at January 1, 2015, from $27,005,347 to $18,425,640.

The Hospital transfers excess cash to assets limited as to use. The assets limited as to use at the end of 2015 were $7,446,179 compared to $6,873,270 and $6,364,657 at the end of 2014 and 2013, 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 2015, the Hospital experienced a profit from operations of $390,211, following the previous year's profit from operations of $2,248,983. Total operating expenses increased 5.1%, or $1,658,300 and operating revenue decreased .1% or $200,472. The most significant increase was salaries and wages due to an increase in full time equivalents and board approved rate increases to current employees.

Operating Results and Changes in the Hospital's Net Positions

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 compared to 2014 and 2013.

Table 2
Revenues and Expenses

	2015	2014	2013
Revenue			
Net Patient Service Revenue	$ 32,801,948	$ 32,516,630	$ 30,439,363
Other Revenues	1,825,409	2,311,199	2,445,133
Total Revenue	34,627,357	34,827,829	32,884,496
Operating Expenses			
Salaries and Wages	14,091,100	13,110,233	13,080,474
Employee Benefits	3,447,156	3,459,358	3,273,702
Supplies and Other	8,406,985	8,674,651	7,925,414
Medical Professional Fees	6,874,831	5,959,155	5,895,316
Depreciation	1,362,953	1,298,038	1,227,939
Other	54,121	77,411	121,820
Total Expenses	34,237,146	32,578,846	31,524,665
Operating Income (Loss)	390,211	2,248,983	1,359,831
Non-Operating Income	38,487	32,762	34,033
Change in Fair Value of Investments	19,198	31,398	9,258
Change In Net Positions	$ 447,896	$ 2,313,143	$ 1,403,122

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of $1,289,549 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $1,132,215. Consequently, in order to compare 2015 total operating expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	$ 34,237,146
Pension expense under GASB 68	(1,132,215)
2015 contractually required contribution	1,354,787
Adjusted 2015 operating expenses	34,459,718
Total 2014 operating expenses under GASB 27	32,578,846
Increase in operating expenses not related pension	$ 1,880,872

Net Patient Service Revenues

Compared to 2014, net patient service revenues increased $285,318 in 2015.

For fiscal year 2015 the Hospital Board of Trustees approved a price increase of 1.4%. Inpatient admissions increased 8.0% and outpatient registrations increased 11.0% for 2015.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross patient service revenues were 48% in 2015 and 48% in 2014.

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 2015, Pomerene Hospital's HCAP distribution was $99,548 less than its assessment, compared to $496,850 more than its assessment in 2014.

Operating Expenses

Total operating expenses in 2015 increased from 2014 levels by $1,658,300 or 5.1%.

Salary & Wages

Total full time equivalents decreased 2% from 2014 to 2015.

Employee Benefits

The amounts paid relating to employee benefits for the Hospital decreased $12,202 from 2014 to 2015.

Supplies and Other

Supplies decreased $267,666 in 2015 when compared to 2014.

Medical and Professional Fees

Medical and professional fees increased $915,676 in 2015 when compared to 2014 due to an increase in legal fees in relation to the conversion to a not for profit Hospital in 2016.

Nonoperating Revenues and Expenses

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

The Hospital's Cash Flows

The Hospital has positive cash flow of $349,006 in 2015.

Capital Assets

Capital assets decreased from $12,361,707 in 2014 to $11,941,353 in 2015. The decrease relates to $1,362,969 in depreciation expense, offset by $953,456 in capital additions. For additional information related to capital assets, see Note 8.

Debt

At December 31, 2015, the Hospital had $1,587,350 in outstanding borrowings under notes payable and capital leases. The Hospital has notes payable outstanding for $1,421,000 which contains certain restrictive covenants that the Hospital was in compliance with at December 31, 2015. For additional information on debt, see Note 9.

Other Economic Factors

The Hospital's Board and management considered many factors when setting the 2015 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 2016 Operating Budget

The Board of Trustees approved the 2016 Operating Budget at its November 2015 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 2016 budget has .4% higher net revenues compared to 2015. The 2016 Hospital budget calls for operating gain of $3,078,604.

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 STATEMENTS OF NET POSITIONS
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 5,816,265	$ 6,016,237
Investments	567,638	667,095
Patient Accounts Receivable, Net of Uncollectible Accounts of $1,240,944 in 2015 and $1,298,500 in 2014	4,692,714	4,703,556
Inventories	373,848	336,636
Prepaid Expenses and Other Assets	262,130	237,501
Total Current Assets	11,712,595	11,961,025
NON-CURRENT ASSETS:		
Other	60,900	43,673
Net Pension Asset (See Note 12)	49,333	0
Assets Limited as to Use	7,446,179	6,873,270
Capital Assets, Net of Depreciation	11,941,353	12,361,707
Total Non-Current Assets	19,497,765	19,278,650
Total Assets	31,210,360	31,239,675
DEFERRED OUTFLOWS OF RESOURCES:		
Pension	1,897,294	0
Total Assets and Deferred Outflows of Resources	$ 33,107,654	$ 31,239,675
LIABILITIES AND NET POSITIONS		
CURRENT LIABILITIES:		
Accounts Payable	$ 707,569	$ 363,106
Accrued Salaries, Wages and Employee Benefits	1,056,791	1,391,912
Other Accrued Expenses	578,646	703,540
Current Portion of Long Term Debt and Leases	182,350	188,420
Total Current Liabilities	2,525,356	2,646,978
LONG-TERM LIABILITIES		
Long-Term Debt and Leases	1,405,000	1,587,350
Net Pension Liability (See Note 12)	10,111,076	0
Total Long-Term Liabilities	11,516,076	1,587,350
Total Liabilities	14,041,432	4,234,328
DEFERRED INFLOWS OF RESOURCES:		
Pension	192,686	0
NET POSITIONS:		
Net Investment in Capital Assets	10,354,003	10,585,927
Restricted by Donor For Specific Uses	567,728	568,785
Unrestricted	7,951,805	15,850,635
Total Net Positions	18,873,536	27,005,347
Total Liabilities, Deferred Inflows of Resources, and Net Positions	$ 33,107,654	$ 31,239,675

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, 2015 AND 2014

	2015	2014
REVENUE:		
Net Patient Service Revenue	$ 32,801,948	$ 32,516,630
Other Operating Revenue	1,825,409	2,311,199
Total Revenue	34,627,357	34,827,829
EXPENSES:		
Salaries and Wages	14,091,100	13,110,233
Employee Benefits	3,447,156	3,459,358
Supplies and Other	8,406,985	8,674,651
Medical Professional Fees	6,874,831	5,959,155
Depreciation	1,362,953	1,298,038
Other	54,121	77,411
Total Expenses	34,237,146	32,578,846
OPERATING INCOME (LOSS)	390,211	2,248,983
NON-OPERATING GAINS		
Non-Operating Income, Net	38,487	32,762
Change in Fair Value of Investments	19,198	31,398
Total Non-Operating Gains	57,685	64,160
CHANGE IN NET POSITIONS	447,896	2,313,143
NET POSITIONS, BEGINNING OF YEAR (See Note 2)	18,425,640	24,692,204
NET POSITIONS, END OF YEAR	$ 18,873,536	$ 27,005,347

See accompanying notes to the combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Patients and Third-Party Payors	$ 32,812,790	$ 31,779,810
Cash Paid to Suppliers for Services and Goods	(15,195,436)	(14,455,094)
Cash Paid to Employees	(5,990,890)	(5,147,343)
Cash Paid to Employees Benefits	(12,105,059)	(11,346,883)
Other Operating Revenue Received	1,825,409	2,311,199
Net Cash Provided By Operating and Nonoperating Activities	1,346,814	3,141,689
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions and Construction of Capital Assets	(942,599)	(1,528,783)
Issuance of Long Term Debt	0	637,000
Principal Payments on Capital Leases	(47,420)	(119,590)
Principal Payments on Long Term Debt	(141,000)	(50,000)
Net Cash Used in Capital and Related Financing Activities	(1,131,019)	(1,061,373)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	38,487	32,762
Purchase of Investments	0	(63,447)
Proceeds From Sale of Investments	75,526	0
Change in Fair Value of Investments	19,198	31,398
Net Cash Provided By Investing Activities	133,211	713
NET INCREASE IN CASH AND CASH EQUIVALENTS	349,006	2,081,029
CASH AND CASH EQUIVALENTS, Beginning of year	10,612,383	8,531,354
CASH AND CASH EQUIVALENTS, End of year	$ 10,961,389	$ 10,612,383
A Reconciliation of the Income From Operations to Net Cash Flows Provided by Operating Activities is as Follows:		
Income/(Loss) From Operations	$ 390,211	$ 2,248,983
Adjustments to Reconcile Income From Operations to Net Cash Provided by Operating Activities:		
Depreciation	1,362,953	1,298,038
Changes in Assets and Liabilities:		
(Increase) Decrease in Patient Accounts Receivable	10,842	(736,820)
(Increase) Decrease in Inventories	(37,212)	(10,592)
(Increase) Decrease in Prepaid Expenses and Other Assets	(41,856)	14,116
(Increase) Decrease in Net Pension Asset	(35,888)	0
(Increase) Deferred Outflows of Resources - Pension	(607,745)	0
Increase (Decrease) in Accounts Payable	344,463	38,108
Increase (Decrease) in Accrued Expenses	(460,015)	289,856
Increase (decrease) in Net Pension Liability	228,375	0
Increase (decrease) in Deferred Inflows of Resources - Pension	192,686	0
Net Cash Provided by Operating Activities	$ 1,346,814	$ 3,141,689

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 subsidiaries, Joel Pomerene Foundation and Health Professionals of Holmes County, Inc. (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

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 the Organization. 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 financial statements of the Organization have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Organization's accounting policies are described below.

Measurement Focus
The combined financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of the Organization are included on the combined statement of net positions.

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

Deferred Outflows/Inflows of Resources
In addition to assets, the statements of net positions will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Hospital, deferred outflows of resources are reported on the statements of net positions for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of net positions report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Hospital, deferred inflows of resources are for pension. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statements of net positions. (See Note 12).

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 2015, 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 $500. 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 and construction in progress 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.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources, the net pension liability, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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 position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Hospital or through external restrictions imposed by creditors, grantors or laws or regulations of other governments

Reclassifications

Certain prior year amounts may have been reclassified to conform to the current year’s presentation.

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.

Implementation of New Accounting Policies

For the year ended December 31, 2015, the Hospital has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.*

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.
GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position January 1, 2015	$	27,005,347
Adjustments:		
Net Pension Asset		13,445
Net Pension Liability		(9,882,701)
Deferred Outflow - Payments Subsequent to Measurement Date		1,289,549
Restated Net Position, January 1, 2015	$	18,425,640

Other than employer contributions subsequent to the measurement date, the Hospital made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. Note that the comparative information presented in the 2014 column is as previously reported. The information necessary to restate the prior year information is not available.

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, 2015 are as follows:

	Level 1	Level 2	Total
Mutual Funds	$ 297,031	$ 0	$ 297,031
Equity Securities	396,191	0	396,191
United States Government Obligations	0	230,083	230,083
Total	$ 693,222	$ 230,083	$ 923,305

Assets measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	Level 1	Level 2	Total
Mutual Funds	$ 338,916	$ 0	$ 338,916
Equity Securities	366,611	0	366,611
United States Government Obligations	0	301,039	301,039
Total	$ 705,527	$ 301,039	$1,006,566

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.

There was no activity in 2015 for assets measured at fair value based upon significant unobservable (non-market) information. A reconciliation of activity for 2014 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	(25,000)
Balance, End of Year	$ 0

4. DEPOSITS AND INVESTMENTS

At December 31, 2015 and 2014 the carrying amount of the Organization’s bank deposits for all funds was $12,906,777 and $12,549,158, respectively; and the bank balance was $13,336,252 and $12,792,001, respectively. Of the bank balance, $1,292,993 and $1,308,918 at December 31, 2015 and 2014, 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, $12,043,259 and $11,483,083, 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. See Note 3 for a summary of the Organization's investments.

As of December 31, 2015 and 2014 the Organization had the following cash and investments:

	December 31, 2015		December 31, 2014	
	Cost	Market	Cost	Market
Cash and Cash Equivalents	$ 10,961,389	$ 10,961,389	$ 10,612,383	$ 10,612,383
Certificates of Deposit	1,945,426	1,945,388	1,937,880	1,937,653
U. S. Government Obligations	231,441	230,083	301,729	301,039
Mutual Funds	229,176	297,031	261,687	338,916
Equity Securities	396,191	396,191	366,611	366,611
Total	$ 13,763,623	$ 13,830,082	$ 13,480,290	$ 13,556,602

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	$ 210,112	N/A -3	N/A -3	22.8%
N/A - 1	N/A - 1	N/A - 1	Killbuck Savings Bank Common Stock	179,820	N/A -3	N/A -3	19.4%
N/A - 1	N/A - 1	N/A - 1	Newell-Rubbermaid Common Stock	6,259	N/A -3	N/A -3	0.7%
N/A - 2	N/A - 2	N/A - 2	Corporate Bonds	230,083	65,180	164,903	24.9%
		3 star rating	Federated Mutual Funds-Equity	16,567	N/A -3	N/A -3	1.8%
		3 star rating	Fidelity Mutual Funds-Equity	29,354	N/A -3	N/A -3	3.2%
		3 star rating	T. Rowe Price Mutual Funds-Equity	105,854	N/A -3	N/A -3	11.5%
		3 star rating	Vanguard Mutual Funds-Equity	145,256	N/A -3	N/A -3	15.7%
			Total	$ 923,305	$ 65,180	$ 164,903	100.0%

N/A - 1: Common Stock not publicly traded
N/A - 2: Exempt from ratings
N/A - 3: Equity 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, 2015 is summarized below.

	Balance 12/31/2014	Contributions	Released or Expended	Balance 12/31/2015
Restricted Net Assets:				
Capital Campaign				
-Capital Additions to Joel Pomerene Memorial Hospital	$ (6,349)	$ 165,484	$ 159,135	$ 0
Harold B. Miley Grant				
-Nursing Education and Scholarship	568,001	8,825	13,913	562,913
Stan Boyd Emergency Fund				
-Prescription Purchases	2,175	0	0	2,175
OB Lifting Hearts				
-Bereavement Program	4,958	1,238	3,556	2,640
Total	$ 568,785	$ 175,547	$ 176,604	$ 567,728

Foundation's restricted net positions for December 31, 2014 is summarized below.

	Balance 12/31/2013	Contributions	Released or Expended	Balance 12/31/2014
Restricted Net Assets:				
Capital Campaign				
-Capital Additions to Joel Pomerene Memorial Hospital	$ 129,697	$ 0	$ 136,046	$ (6,349)
Harold B. Miley Grant				
-Nursing Education and Scholarship	564,781	27,943	24,723	568,001
Stan Boyd Emergency Fund				
-Prescription Purchases	2,277	0	102	2,175
OB Lifting Hearts				
-Bereavement Program	4,586	5,415	5,043	4,958
Total	$ 701,341	$ 33,358	$ 165,914	$ 568,785

6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2015	December 31, 2014
Total Patient Accounts Receivable	$ 8,193,499	$ 8,247,314
Less Allowance For:		
Contractual Adjustments	2,259,841	2,245,258
Uncollectible Amounts	1,240,944	1,298,500
Net Patient Accounts Receivable	$ 4,692,714	$ 4,703,556

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, 2015		December 31, 2014	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	7%	33%	11%	22%
Medicaid	17%	17%	13%	17%
Commercial and Other	37%	26%	39%	47%
Self-Pay	39%	24%	37%	14%
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 2012 and Medicaid cost reports have been settled through 2008.

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, 2015 was as follows:

	2014	Additions	Retirements	2015
Land	$ 631,987	$ 0	$ 0	$ 631,987
Land Improvements	805,961	0	0	805,961
Building and Fixed Equipment	18,872,653	166,096	0	19,038,749
Moveable Equipment	14,480,907	787,360	(93,843)	15,174,424
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	35,583,029	953,456	(93,843)	36,442,642
Less Accumulated Depreciation:				
Land Improvements	724,284	24,981	0	749,265
Building and Fixed Equipment	10,498,983	549,943	0	11,048,926
Moveable Equipment	11,386,965	787,976	(82,986)	12,091,955
Sub-Specialty Medical Clinic	144,200	0	0	144,200
Modular Medical Office Building	449,890	53	0	449,943
OB/GYN Clinic	17,000	0	0	17,000
Total Accumulated Depreciation	23,221,322	1,362,953	(82,986)	24,501,289
Capital Assets, Net	$ 12,361,707	$ (409,497)	$ (10,857)	$ 11,941,353

Capital asset activity for the year ended December, 31, 2014 was as follows:

	2013	Additions	Retirements	2014
Land	$ 631,987	$ 0	$ 0	$ 631,987
Land Improvements	805,961	0	0	805,961
Construction in Progress	171,800	0	(171,800)	0
Building and Fixed Equipment	18,529,040	343,613	0	18,872,653
Moveable Equipment	13,165,474	1,366,629	(51,196)	14,480,907
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	34,095,783	1,710,242	(222,996)	35,583,029
Less Accumulated Depreciation:				
Land Improvements	698,591	25,693	0	724,284
Building and Fixed Equipment	9,929,743	569,240	0	10,498,983
Moveable Equipment	10,725,448	703,054	(41,537)	11,386,965
Sub-Specialty Medical Clinic	144,200	0	0	144,200
Modular Medical Office Building	449,839	51	0	449,890
OB/GYN Clinic	17,000	0	0	17,000
Total Accumulated Depreciation	21,964,821	1,298,038	(41,537)	23,221,322
Capital Assets, Net	$ 12,130,962	$ 412,204	$ (181,459)	$ 12,361,707

9. LONG TERM DEBT

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

	December 31, 2015		
	Notes Payable	Pension	Capital Lease
Debt Outstanding January 1, 2015 (Restated, See Note 2)	$ 1,562,000	$ 9,882,701	$ 213,770
Additions	0	228,375	0
Repayments	141,000	0	47,420
Debt Outstanding December 31, 2015	$ 1,421,000	$ 10,111,076	$ 166,350
Expected to be Paid Within One Year	$ 141,000	$ 0	$ 41,350

	December 31, 2014	
	Notes Payable	Capital Lease
Debt Outstanding January 1, 2014	$ 975,000	$ 333,360
Additions	637,000	0
Repayments	50,000	119,590
Debt Outstanding December 31, 2014	$ 1,562,000	$ 213,770
Expected to be Paid Within One Year	$ 141,000	$ 47,420

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 June 2033. Aultman has option to call the loan in July 2018. Aultman is a related party in that it provides certain management services to the Hospital.

In 2014, the Hospital obtained a $637,000, unsecured interest-free, loan from Aultman Health Foundation (Aultman), with equal quarterly principal only payments of $22,750 through November 2021. Aultman is a related party in that it provides certain management services to the Hospital.

Future minimum principal payments follow:

	Note
2016	$ 141,000
2017	141,000
2018	866,000
2019	91,000
2020	91,000
2021	91,000
Total Payments	$ 1,421,000

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 2024. Operating lease expense for equipment totaled $506,654 and $493,741 in 2015 and 2014, respectively.

Effective March 1, 2009, the Hospital signed a five-year lease agreement for office space from Family Properties, Ltd. The lease expired in February 2014, an addendum was signed in 2014 extending the option to lease for five years.

Office lease expense totaled $285,180 and $286,321 in 2015 and 2014, respectively.

Effective October 8, 2014, the Hospital signed a ten-year lease agreement for a medical facility in Berlin, Ohio. The lease expires in 2024 with the option to terminate the lease in five years. Lease expense was $52,612 and $66,560 in 2015 and 2014, respectively.

Minimum payments on these obligations to maturity as of December 31, 2015 are as follows:

	Capital Lease	Operating Lease	Total Lease
2016	$ 41,650	$ 341,705	$ 383,355
2017	33,333	345,258	378,591
2018	33,333	345,258	378,591
2019	33,333	107,931	141,264
2020	25,000	63,954	88,954
2021 - 2024	0	250,487	250,487
Total Payments	166,649	1,454,593	1,621,242
Less Amount Representing Interest	299	0	299
Total Principal Payments	$ 166,350	$ 1,454,593	$ 1,620,943

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2015. 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 $30,046 as outlined below.

	Operating Sub-Lease
2016	$ 30,046
Total Rental Receipts	$ 30,046

	December 31, 2015	December 31, 2014
Cost of Equipment Under Capital Lease	$ 622,949	$ 622,949
Less: Accumulated Depreciation	300,145	249,505
Net Carrying Amount	$ 322,804	$ 373,444

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, 2015.

10. CHARITY CARE

The Hospital provides medical care without charge, or at a reduced cost, to residents of its community, primarily through (1) services that are non-elective and needed in order to prevent death or adverse effects to the patient's health; and (2) services provided to patients who are uninsured, underinsured, ineligible for government assistance programs, or unable to pay based on financial situation. Patients are required to apply for Medicaid (if applicable) and HCAP prior to applying for the Hospital's charity care. 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 $197,397 and $440,674 in 2015 and 2014, 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, 2015 and 2014 are as follows:

	Year Ended December 31,	
	2015	2014
Gross Patient Service Revenue	$ 63,503,890	$ 62,048,846
Revenue Deductions:		
Provision for Contractual Allowances	29,731,889	27,546,735
Bad Debts	970,053	1,985,481
Total Revenue Deductions	30,701,942	29,532,216
Net Patient Service Revenue	$ 32,801,948	$ 32,516,630

12. DEFINED BENEFIT PENSION PLAN (2015)

Net Pension Asset/Liability

The net pension asset/liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions–-between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension asset/liability represents the Hospital's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension asset/liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Hospital's obligation for the liability to annually required payments. The Hospital cannot control benefit terms or the manner in which pensions are financed; however, the Hospital does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension asset* or *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued salaries, wages and employee benefits.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - Hospital employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Hospital employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional and combined plans; therefore, the following disclosure focuses on the traditional and combined pension plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Law Enforcement	**Law Enforcement**	**Law Enforcement**
Age and Service Requirements: Age 52 with 15 years of service credit	**Age and Service Requirements:** Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	**Age and Service Requirements:** Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	**Formula:** 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	**Formula:** 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.00 %
Employee	10.00 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.00 %
Post-employment Health Care Benefits	2.00
Total Employer	14.00 %
Employee	10.00 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Hospital’s contractually required contribution was $1,354,787 for 2015. Of this amount, $150,141 is reported as accrued salaries, wages and employee benefits.

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension asset/liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension asset/liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportionate Share of the Net Pension Asset	$ 0	$ 49,333	$ 49,333
Proportionate Share of the Net Pension Liability	$ 10,111,076	$ 0	$ 10,111,076
Proportion of the Net Pension Asset/Liability	0.08383200%	0.12812900%	
Pension Expense	$ 1,099,857	$ 32,358	$ 1,132,215

At December 31, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 539,496	$ 3,011	$ 542,507
Hospital contributions subsequent to the measurement date	1,283,866	70,921	1,354,787
Total Deferred Outflows of Resources	$ 1,823,362	$ 73,932	$ 1,897,294
Deferred Inflows of Resources			
Differences between expected and actual experience	$ 177,632	$ 15,054	$ 192,686

$1,354,787 reported as deferred outflows of resources related to pension resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2016	$ 52,914	$ (1,037)	$ 51,877
2017	52,914	(1,037)	51,877
2018	121,162	(1,037)	120,125
2019	134,874	(1,038)	133,836
2020	0	(1,790)	(1,790)
Thereafter	0	(6,104)	(6,104)
	$ 361,864	$ (12,043)	$ 349,821

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Information	Traditional Plan	Combined Plan
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation	4.25 percent to 8.05 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	8.00 percent	8.00 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Hospital's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Hospital's proportionate share of the net pension liability:			
Traditional Plan	$ 18,601,482	$ 10,111,076	$ 2,960,108
Combined Plan	6,406	(49,333)	$ (93,534)

13. POST-EMPLOYMENT BENEFITS (2015)

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (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 two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored 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 20 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 Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible benefit recipients. 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/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 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 to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The Hospital's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014, and 2013 were $225,798, $222,102 and $110,719, respectively. For 2015, 89 percent has been contributed with the balance being reported as accrued salaries, wages, and employee benefits. The full amount has been contributed for 2014 and 2013.

14. PENSION PLANS (2014)

Defined Benefit Pension Plan

Plan Description – The Hospital participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by 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, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014 and 2013, member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2014 and 2013, members in state and local classifications contributed 10.0 percent of covered payroll.

The Hospital's 2014 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 2.0 percent during calendar year 2014. The portion of employer contributions allocated to health care for members in the Combined Plan was 2.0 percent during calendar year 2014.

Postemployment Benefits

Plan Description – Ohio Public Employees Retirement System (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, a prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and 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 Postemployment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the 2013 stand-alone financial report referred to below.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care 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, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

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 OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Postemployment Health Care plan was established under, and is administered 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 postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan and Combined Plan was 2.0 percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0 percent for both plans, as recommended by 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 provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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 coverage selected.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 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 percent of the employer contributions toward the health care fund after the end of the transition period.

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

Year	Contribution
2014	$ 1,554,714
2013	$ 1,550,071
2012	$ 1,532,011

15. 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 nor has there been a reduction in coverage in the current year. 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.

16. NOT-FOR-PROFIT CONVERSION

On February 19, 2015, the Pomerene Board of Trustees with the approval of the Holmes County Commissioners has elected to convert the Hospital from a county-owned hospital under Ohio Revised Code 339 to a private, not-for-profit hospital. The conversion process to private status will be undertaken throughout the 2015 calendar year. The conversion was completed on January 1, 2016. As of this date the Hospital will operate as a not-for-profit private hospital. According to the 50-year lease agreement, The Joel Pomerene Foundation, an Ohio 501c 3 Corporation, will operate the Hospital as a private, not for profit community hospital while the Holmes County Commissioners will retain ownership of the hospital's physical land and associated building assets.

17. BLENDED COMPONENT UNITS

Joel Pomerene Foundation and Health Professionals of Holmes County, Inc. are considered blended component units under criteria of GASB Statement No. 61. The following represents condensed combining financial statements for the years ended 2015 and 2014.

December 31, 2015
Combining Statement of Net Positions

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Current Assets	$ 10,980,380	$ 572,661	$ 159,554	$ 11,712,595
Other Assets	60,900	0	0	60,900
Net Pension Asset	49,333	0	0	49,333
Assets Limited as to Use	7,446,179	0	0	7,446,179
Capital Assets, Net of Depreciation	11,464,886	476,467	0	11,941,353
Total Assets	30,001,678	1,049,128	159,554	31,210,360
Deferred Outflows of Resources	1,897,294	0	0	1,897,294
Current Liabilities	2,332,851	33,333	159,172	2,525,356
Long Term Debt/Capital Leases	1,280,000	125,000	0	1,405,000
Net Pension Liability	10,111,076	0	0	10,111,076
Total Liabilities	13,723,927	158,333	159,172	14,041,432
Deferred Inflows of Resources	192,686	0	0	192,686
Net Investment In Capital Assets	10,035,869	318,134	0	10,354,003
Restricted by Donor For Specific Use	0	567,728	0	567,728
Net Position	7,946,490	4,933	382	7,951,805
Total Net Position	$ 17,982,359	$ 890,795	$ 382	$ 18,873,536

December 31, 2014
Combining Statement of Net Positions

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Current Assets	$ 11,254,965	$ 684,345	$ 21,715	$ 11,961,025
Other Assets	43,673	0	0	43,673
Assets Limited as to Use	6,873,270	0	0	6,873,270
Capital Assets, Net of Depreciation	11,998,029	363,678	0	12,361,707
Total Assets	30,169,937	1,048,023	21,715	31,239,675
Current Liabilities	2,509,907	34,310	102,761	2,646,978
Long Term Debt/Capital Leases	1,429,016	158,334	0	1,587,350
Total Liabilities	3,938,923	192,644	102,761	4,234,328
Net Investment In Capital Assets	10,413,917	172,010	0	10,585,927
Restricted by Donor For Specific Use	0	568,785	0	568,785
Net Position	15,817,097	114,584	(81,046)	15,850,635
Total Net Position	$ 26,231,014	$ 855,379	$ (81,046)	$ 27,005,347

December 31, 2015
Combining Statement of Operations and Changes In Net Position

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Operating Revenues	$ 30,784,732	$ 82,672	$ 3,759,953	$ 34,627,357
Operating Expenses				
Depreciation	1,349,957	13,012	0	1,362,969
Operating Expenses	29,161,408	34,244	3,678,525	32,874,177
Total Operating Expenses	30,511,365	47,256	3,678,525	34,237,146
Operating Income/(Loss)	273,367	35,416	81,428	390,211
Non-Operating Gains	57,685	0	0	57,685
Change in Net Position	331,052	35,416	81,428	447,896
Beginning Net Positions (Restated)	17,651,307	855,379	(81,046)	18,425,640
Ending Net Positions	$ 17,982,359	$ 890,795	$ 382	$ 18,873,536

December 31, 2014
Combining Statement of Operations and Changes In Net Position

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Operating Revenues	$ 32,280,310	$ 61,315	$ 2,486,204	$ 34,827,829
Operating Expenses				
Depreciation	1,287,416	10,622	0	1,298,038
Operating Expenses	28,655,866	57,148	2,567,794	31,280,808
Total Operating Expenses	29,943,282	67,770	2,567,794	32,578,846
Operating Income/(Loss)	2,337,028	(6,455)	(81,590)	2,248,983
Non-Operating Gains	64,160	0	0	64,160
Change in Net Position	2,401,188	(6,455)	(81,590)	2,313,143
Beginning Net Positions	23,829,826	861,834	544	24,692,204
Ending Net Positions	$ 26,231,014	$ 855,379	$ (81,046)	$ 27,005,347

December 31, 2015
Combining Statement of Cash Flows

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Cash Flows From Operating Activities	$ 1,161,524	$ 47,451	$ 137,839	$ 1,346,814
Cash Flows From Capital and Related Financing Activities	(971,883)	(159,136)	0	(1,131,019)
Cash Flows From Investing Activities	133,211	0	0	133,211
Cash and Cash Equivalents, Beginning of Year	9,906,323	684,345	21,715	10,612,383
Cash and Cash Equivalents, End of Year	$ 10,229,175	$ 572,660	$ 159,554	$ 10,961,389

December 31, 2014
Combining Statement of Cash Flows

	Joel Pomerene Hospital	Joel Pomerene Foundation	Health Professionals of Holmes County	Consolidated
Cash Flows From Operating Activities	$ 3,128,355	$ 4,661	$ 8,673	$ 3,141,689
Cash Flows From Capital and Related Financing Activities	(925,327)	(136,046)	0	(1,061,373)
Cash Flows From Investing Activities	713	0	0	713
Cash and Cash Equivalents, Beginning of Year	7,702,582	815,730	13,042	8,531,354
Cash and Cash Equivalents, End of Year	$ 9,906,323	$ 684,345	$ 21,715	$ 10,612,383

Joel Pomerene Memorial Hospital
Holmes County, Ohio
Required Supplementary Information
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Last Two Years (1)

	2015	2014
Ohio Public Employees' Retirement System (OPERS) - Traditional Plan		
Hospital's Proportion of the Net Pension Liability (Asset)	0.0838320%	0.0838320%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	$ 10,111,076	$ 9,882,701
Hospital's Covered-Employee Payroll	$ 10,277,883	$ 10,492,338
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	98.38%	94.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%
Ohio Public Employees' Retirement System (OPERS) - Combined Plan		
Hospital's Proportion of the Net Pension Liability (Asset)	0.1281290%	0.1281290%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	$ (49,333)	$ (13,445)
Hospital's Covered-Employee Payroll	$ 468,358	$ 579,597
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	-10.53%	-2.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.83%	104.56%

(1) Information prior to 2014 is not available.

Joel Pomerene Memorial Hospital
Holmes County, Ohio
Required Supplementary Information
Schedule of Hospital Contributions
Last Three Years (1)

	2015	2014	2013
Ohio Public Employees' Retirement System (OPERS Traditional Plan)			
Contractually Required Contribution	$ 1,283,866	1,233,346	$ 1,364,004
Contributions in Relation to the Contractually Required Contribution	(1,283,866)	(1,233,346)	(1,364,004)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Hospital's covered-employee payroll	$ 10,698,883	$ 10,277,883	$ 10,492,338
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%
Ohio Public Employees' Retirement System (OPERS Combined Plan)			
Contractually Required Contribution	$ 70,921	56,203	$ 75,348
Contributions in Relation to the Contractually Required Contribution	(70,921)	(56,203)	(75,348)
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Hospital's covered-employee payroll	$ 591,008	$ 468,358	$ 579,597
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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Rea & associates a brighter way

May 13, 2016

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the 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, the combined financial statements of the Joel Pomerene Memorial Hospital, Holmes County, Ohio, a business-type activity of Holmes County, Ohio, and its subsidiaries (collectively the "Organization"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Organization's combined financial statements, and have issued our report thereon dated May 13, 2016, wherein we noted the combined financial statements of the Organization present only a portion of the business-type activities of Holmes County, Ohio that is attributable to the transactions of the Organization, the Organization restated net position to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* and the conversion of the Organization from a county-owned facility to a private not-for-profit.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Dave Yost • Auditor of State

JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 12, 2016