

JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

JANUARY 1, 2002 TO DECEMBER 31, 2002

PREPARED BY: REA & ASSOCIATES, INC.



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Rea & Associates, Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Joel Pomerene Memorial Hospital is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 21, 2003

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

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 5, 2003

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of Joel Pomerene Memorial Hospital an Enterprise Fund of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) as of December 31, 2002 and 2001. We have audited the accompanying statements of operations and cash flows of Joel Pomerene Memorial Hospital for December 31, 2002 and 2001, and the accompanying statements of operations and cash flows for Joel Pomerene Foundation for the year ended December 31, 2002. These financial statements are the responsibility of Holmes County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only Joel Pomerene Memorial Hospital an Enterprise Fund of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) and are not intended to present fairly the financial position of Holmes County, Ohio, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of Joel Pomerene Memorial Hospital an Enterprise Fund of Holmes County, Ohio, and Joel Pomerene Foundation, as of December 31, 2002 and 2001, and the results of operations, changes in fund balances, and cash flows of Joel Pomerene Memorial Hospital and Enterprise Fund of Holmes County, Ohio for the years then ended, and the results of operations, changes in fund balances and cash flows of Joel Pomerene Foundation for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2003 on our consideration of Joel Pomerene Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Joel Pomerene Foundation statements of operations and cash flows for the year ended December 31, 2001 were compiled by us and our report thereon, dated February 4, 2002 stated we did not audit or review those financial statements and, accordingly, we express no opinion or other form of assurance on them.

Rea & Associates, Inc.

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

BALANCE SHEETS
AS OF DECEMBER 31, 2002 AND 2001

	2002		
	Joel Pomerene Memorial Hospital	Joel Pomerene Foundation	Total (Memorandum Only)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,814,155	\$ 337,078	\$ 2,151,233
Patient, accounts receivable	3,703,044	0	3,703,044
Current portion of pledges receivable, less allowance for uncollectible pledges	0	183,666	183,666
Other receivables	50,100	0	50,100
Inventories	213,277	0	213,277
Prepaid expenses and other assets	244,013	0	244,013
Current portion of assets limited as to use	110,770	0	110,770
Total current assets	6,135,359	520,744	6,656,103
PLEDGES RECEIVABLE, net of current portion, less allowance for uncollectible accounts	0	519,089	519,089
ASSETS LIMITED AS TO USE, net of current portion	5,510,396	0	5,510,396
PROPERTY, PLANT, AND EQUIPMENT, net	9,634,708	10,702	9,645,410
Total Assets	<u>\$ 21,280,463</u>	<u>\$ 1,050,535</u>	<u>\$ 22,330,998</u>
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES:			
Current portion of long term debt and leases	\$ 96,629	\$ 0	\$ 96,629
Accounts payable	451,492	0	451,492
Accrued salaries, wages and employee benefits	1,645,765	0	1,645,765
Other accrued expenses	284,094	0	284,094
Third party settlements	325,000	0	325,000
Total current liabilities	2,802,980	0	2,802,980
DEFERRED REVENUE - Capital Campaign	0	696,943	696,943
LONG TERM DEBT AND LEASES, less current portion	1,258,085	0	1,258,085
FUND BALANCE:			
Restricted	0	314,814	314,814
Unrestricted	17,219,398	38,778	17,258,176
Total fund balance	<u>17,219,398</u>	<u>353,592</u>	<u>17,572,990</u>
Total Liabilities and Fund Balance	<u>\$ 21,280,463</u>	<u>\$ 1,050,535</u>	<u>\$ 22,330,998</u>

See accompanying notes to the financial statements.

2001		
Joel Pomerene Memorial Hospital	Joel Pomerene Foundation	Total (Memorandum Only)
\$ 778,023	\$ 36,951	\$ 814,974
3,579,122	0	3,579,122
0	0	0
35,545	0	35,545
185,449	0	185,449
299,286	0	299,286
130,502	0	130,502
5,007,927	36,951	5,044,878
0	0	0
4,241,144	0	4,241,144
10,222,209	10,702	10,232,911
<u>\$ 19,471,280</u>	<u>\$ 47,653</u>	<u>\$ 19,518,933</u>
\$ 176,394	\$ 0	\$ 176,394
405,776	0	405,776
1,203,068	0	1,203,068
291,473	0	291,473
433,188	0	433,188
2,509,899	0	2,509,899
0	0	0
1,817,046	0	1,817,046
0	5,363	5,363
15,144,335	42,290	15,186,625
<u>15,144,335</u>	<u>47,653</u>	<u>15,191,988</u>
<u>\$ 19,471,280</u>	<u>\$ 47,653</u>	<u>\$ 19,518,933</u>

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

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002		
	Joel Pomerene Memorial Hospital	Joel Pomerene Foundation	Total (Memorandum Only)
REVENUE:			
Net patient service revenue	\$ 22,050,565	\$ 0	\$ 22,050,565
Contributions	0	51,450	51,450
Fund-raising income	0	17,541	17,541
Interest income	0	1,110	1,110
Contributions - Joel Pomerene Memorial Hospital	0	55,794	55,794
Public support - capital campaign	0	264,814	264,814
Other operating revenue	305,772	0	305,772
Total revenue	<u>22,356,337</u>	<u>390,709</u>	<u>22,747,046</u>
EXPENSES:			
Salaries and wages	7,905,473	0	7,905,473
Employee benefits and payroll taxes	1,881,406	0	1,881,406
Supplies and other	6,084,675	0	6,084,675
Medical professional fees	2,213,345	0	2,213,345
Physician recruiting and incentive	167,177	0	167,177
Provision for bad debts	821,634	0	821,634
Depreciation and amortization	1,182,604	0	1,182,604
Interest	111,445	0	111,445
Legal and professional fees	0	54,719	54,719
Fund-raising expenses	0	16,156	16,156
Wellness program	0	0	0
Consulting	0	880	880
Austin Baily Grant expenses	0	5,363	5,363
Administrative	0	7,552	7,552
State filing fee	0	100	100
Miscellaneous	0	0	0
Total expenses	<u>20,367,759</u>	<u>84,770</u>	<u>20,452,529</u>
OPERATING INCOME (LOSS)	1,988,578	305,939	2,294,517
Net non-operating income	126,579	0	126,579
NE Network Grant - Net	(44,364)	0	(44,364)
Change in fair value of investments	4,270	0	4,270
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 2,075,063</u>	<u>\$ 305,939</u>	<u>\$ 2,381,002</u>

See accompanying notes to the financial statements.

2001		
Joel Pomerene Memorial Hospital	(Compiled) Joel Pomerene Foundation	Total (Memorandum Only)
\$ 18,703,249	\$ 0	\$ 18,703,249
0	29,595	29,595
0	17,986	17,986
0	1,084	1,084
0	56,099	56,099
0	15,000	15,000
288,317	0	288,317
<u>18,991,566</u>	<u>119,764</u>	<u>19,111,330</u>
6,716,013	0	6,716,013
1,651,091	0	1,651,091
5,370,651	0	5,370,651
2,169,282	0	2,169,282
263,708	0	263,708
616,588	0	616,588
1,098,798	0	1,098,798
123,299	0	123,299
0	62,413	62,413
0	19,359	19,359
0	34,116	34,116
0	9,310	9,310
0	24,871	24,871
0	1,627	1,627
0	200	200
0	103	103
<u>18,009,430</u>	<u>151,999</u>	<u>18,161,429</u>
982,136	(32,235)	949,901
208,342	0	208,342
(33,249)	0	(33,249)
2,137	0	2,137
<u>\$ 1,159,366</u>	<u>\$ (32,235)</u>	<u>\$ 1,127,131</u>

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

STATEMENTS OF CHANGES IN FUND BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002		
	Joel Pomerene Memorial Hospital	Joel Pomerene Foundation	Total (Memorandum Only)
RESTRICTED FUNDS			
BALANCE - Beginning of year	\$ 0	\$ 5,363	\$ 5,363
Revenues and gains in excess of expenses	<u>0</u>	<u>309,451</u>	<u>309,451</u>
BALANCE - End of year	0	314,814	314,814
UNRESTRICTED FUNDS			
BALANCE - Beginning of year	15,144,335	42,290	15,186,625
Revenues and gains in excess of expenses	<u>2,075,063</u>	<u>(3,512)</u>	<u>2,071,551</u>
BALANCE - End of year	<u>17,219,398</u>	<u>38,778</u>	<u>17,258,176</u>
Total fund balance	<u>\$ 17,219,398</u>	<u>\$ 353,592</u>	<u>\$ 17,572,990</u>

See accompanying notes to the financial statements.

2001		
Joel Pomerene Memorial Hospital	(Compiled) Joel Pomerene Foundation	Total (Memorandum Only)
\$ 0	\$ 15,234	\$ 15,234
<u>0</u>	<u>(9,871)</u>	<u>(9,871)</u>
0	5,363	5,363
13,984,969	64,654	14,049,623
<u>1,159,366</u>	<u>(22,364)</u>	<u>1,137,002</u>
<u>15,144,335</u>	<u>42,290</u>	<u>15,186,625</u>
<u>\$ 15,144,335</u>	<u>\$ 47,653</u>	<u>\$ 15,191,988</u>

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002		
	Joel Pomerene Memorial Hospital	Joel Pomerene Foundation	Total (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from patients and third-party payers	\$ 21,803,900	\$ 0	\$ 21,803,900
Cash received from general public and others	0	327,823	327,823
Cash paid to suppliers for services and goods	(8,399,413)	(28,805)	(8,428,218)
Cash payments to employees for services	(9,344,182)	0	(9,344,182)
Interest received	0	1,109	1,109
Other operating revenue received	303,672	0	303,672
Net cash provided by operating activities	<u>4,363,977</u>	<u>300,127</u>	<u>4,664,104</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisitions and construction of capital assets - net	(661,466)	0	(661,466)
Proceeds from sale of capital asset	2,581	0	2,581
Principal payments on capital leases	(126,394)	0	(126,394)
Principal payments on capital related debts	(512,333)	0	(512,333)
Interest paid on capital related debt and capital leases	(111,445)	0	(111,445)
Placed in trust for capital related debt	0	0	0
Net cash used in capital and related financing activities	<u>(1,409,057)</u>	<u>0</u>	<u>(1,409,057)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Net proceeds from grants	0	0	0
Net cash provided by noncapital financing activities	<u>0</u>	<u>0</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	126,579	0	126,579
Purchases of investments	(1,599,615)	0	(1,599,615)
Net cash provided by (used in) investing activities	<u>(1,473,036)</u>	<u>0</u>	<u>(1,473,036)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,481,884	300,127	1,782,011
CASH AND CASH EQUIVALENTS, Beginning of year	2,463,981	36,951	2,500,932
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 3,945,865</u>	<u>\$ 337,078</u>	<u>\$ 4,282,943</u>
Cash and cash equivalents include the following:			
Cash and equivalents	\$ 1,814,155	\$ 337,078	\$ 2,151,233
Assets limited as to use cash and cash equivalents:			
Board designated for future capital improvements	2,088,440	0	2,088,440
Funds available for future construction and equipment	43,270	0	43,270
Total cash and cash equivalents	<u>\$ 3,945,865</u>	<u>\$ 337,078</u>	<u>\$ 4,282,943</u>
A reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows:			
Income from operations	\$ 1,988,578	\$ 305,939	\$ 2,294,517
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation and amortization	1,182,604	0	1,182,604
Bad debt expense	821,634	0	821,634
Interest expense	111,445	0	111,445
Loss on sale of capital asset	(2,100)	0	(2,100)
Changes in assets and liabilities:			
(Increase) decrease in patient accounts receivable	(123,922)	0	(123,922)
(Increase) decrease in pledges receivable	0	(702,755)	(702,755)
(Increase) decrease in other receivables	(14,555)	0	(14,555)
(Increase) decrease in inventories	(27,826)	0	(27,826)
(Increase) decrease in prepaid items	55,273	0	55,273
Increase (decrease) in accounts payable	45,716	0	45,716
Increase (decrease) in accrued expenses	435,318	0	435,318
Increase (decrease) in deferred revenue	0	696,943	696,943
Increase (decrease) in third-party settlements	(108,188)	0	(108,188)
Net cash provided by operating activities	<u>\$ 4,363,977</u>	<u>\$ 300,127</u>	<u>\$ 4,664,104</u>

See accompanying notes to the financial statements.

2001		
Joel Pomerene Memorial Hospital	(Compiled) Joel Pomerene Foundation	Total (Memorandum Only)
\$ 17,836,302	\$ 0	\$ 17,836,302
0	47,581	47,581
(8,065,912)	(80,900)	(8,146,812)
(8,089,448)	0	(8,089,448)
0	1,084	1,084
287,249	0	287,249
<u>1,968,191</u>	<u>(32,235)</u>	<u>1,935,956</u>
(2,319,042)	(10,702)	(2,329,744)
1,175	0	1,175
(121,509)	0	(121,509)
(48,000)	0	(48,000)
(123,299)	0	(123,299)
(5,302)	0	(5,302)
<u>(2,615,977)</u>	<u>(10,702)</u>	<u>(2,626,679)</u>
10,353	0	10,353
<u>10,353</u>	<u>0</u>	<u>10,353</u>
208,341	0	208,341
1,474,855	0	1,474,855
<u>1,683,196</u>	<u>0</u>	<u>1,683,196</u>
1,045,763	(42,937)	1,002,826
1,418,218	79,888	1,498,106
<u>\$ 2,463,981</u>	<u>\$ 36,951</u>	<u>\$ 2,500,932</u>
\$ 778,023	\$ 36,951	\$ 814,974
1,642,688	0	1,642,688
43,270	0	43,270
<u>\$ 2,463,981</u>	<u>\$ 36,951</u>	<u>\$ 2,500,932</u>
\$ 982,136	\$ (32,235)	\$ 949,901
1,098,798	0	1,098,798
616,588	0	616,588
123,299	0	123,299
(1,068)	0	(1,068)
(1,080,657)	0	(1,080,657)
0	0	0
150,643	0	150,643
14,986	0	14,986
(180,967)	0	(180,967)
(150,911)	0	(150,911)
332,277	0	332,277
0	0	0
63,067	0	63,067
<u>\$ 1,968,191</u>	<u>\$ (32,235)</u>	<u>\$ 1,935,956</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Joel Pomerene Memorial Hospital

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

Basis of Presentation - The Hospital financial statements have been presented in conformity with generally accepted accounting principles as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants. In accordance with hospital industry accounting practice, the financial statements include an unrestricted fund.

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

Joel Pomerene Foundation

Joel Pomerene Foundation (Foundation) manages and coordinates fund raising campaigns, deferred-giving programs, and similar activities designed for the financial and volunteer support of Joel Pomerene Memorial Hospital (Hospital). The Foundation is a component unit of the Hospital. In addition, the Foundation actively participates in consortia, preferred provider organizations, and similar activities and develops innovative health care delivery strategies in which to participate on behalf of the Hospital.

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

The Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has elected to use the Governmental Reporting Model as determined in the Governmental Accounting Standards Board Statement 29 (GASB 29 - The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities).

Significant Accounting Policies – Hospital

Accounting Standards - Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Proprietary fund accounting - The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Investments are carried at fair value. Gains and losses on investments, both realized and unrealized, are included in income for unrestricted funds.

Interest and dividends on investments are included in non-operating income when earned.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Patient Accounts Receivable and Revenue - Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2002 and 2001, approximately 31% and 34%, respectively, of the Hospital's gross patient revenue was derived from Medicare payments while 9% in both years was derived from Medicaid payments. Additionally, approximately 19% of the Hospital's total patient revenue was derived from individual self-payments in 2002 and 2001, respectively. The remaining revenue was derived primarily from commercial insurance payments.

Inventories - Inventories are stated at the lower of cost or market value determined by the first-in, first-out method.

Assets Limited as to Use - Assets limited as to use consists of invested funds designated by the Board of Trustees for future capital improvements, funds invested in accordance with agreements with a third-party, and funds held by trustees under indenture agreements (see Note 6).

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost, or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

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

Significant Accounting Policies – Foundation

Summary of Significant Accounting Policies - The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

The Foundation uses funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Foundation functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Measurement Focus and Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the Foundation is 60 days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, federal and state grants and subventions, and charges for current services.

The Foundation reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded in the accounting period in which the related fund liability is incurred. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Receivables - Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

Fixed Assets - Equipment purchased by the Foundation is recorded at cost. Equipment donated to the Foundation is recorded at their estimated fair value at the date of donation. Fixed assets owned by the Foundation are not depreciated.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue. The deferred revenue recorded on the Foundation's books are comprised of long-term pledge receivables.

Fund Balance - The unrestricted fund balances for governmental funds represent the amount available for budgeting future operations. The restricted fund balances for governmental funds represent the amount that has been identified for specific purposes.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Other Accounting Policies

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

Cash equivalents - Cash equivalents include all highly liquid investments purchased from original maturities of three months or less, excluding arrangements under trust agreements.

Total Columns - Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

2. RECLASSIFICATION OF PRIOR YEAR'S STATEMENT

In 2002, the Foundation elected to begin using the Governmental Reporting Model as discussed in the Summary of Accounting Policies presented above. This change from Not-for-Profit reporting to Governmental Reporting required that the Balance Sheet as of December 31, 2001 be adjusted to remove the accumulated depreciation related to fixed assets acquired in 2001. Due to the fact that no fixed assets had been acquired by the foundation before January 1, 2001, the change to the Governmental Reporting Model will have no affect on the beginning balance in 2001.

Certain 2001 expenses were also reclassified to conform with the presentation of the 2002 audited financial statements. The reclassification had no affect on total fund balance.

3. DEPOSITS AND INVESTMENTS

Joel Pomerene Memorial Hospital

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

	Cash and Cash <u>Equivalents</u>	Assets Whose Use Is <u>Limited</u>
Financial statements	\$ 1,814,155	\$ 5,621,166
Investments	0	(298,691)
Interest receivable	0	(880)
Funds held by trustee	0	(268,032)
Cash on hand	<u>(600)</u>	<u>0</u>
GASB Statement No. 3 deposits	<u>\$ 1,813,555</u>	<u>\$ 5,053,563</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

The Hospital funds held by Holmes County and included in assets whose use is limited (\$268,032 at December 31, 2002) are deposited in the name of Holmes County.

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

Deposits - At December 31, 2002, the carrying amount of the Hospital's deposits for all funds is \$6,867,118 as compared to bank balances of \$7,095,536. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, \$405,896 is covered by Federal insurance programs and \$6,689,039 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

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

	2002			Reported Amount	Fair Value
	Category 1	Category 2	Category 3		
Common stock	\$ 291,131			\$ 291,131	\$ 291,131
Mutual fund					7,560
Total investments	<u>\$ 291,131</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 291,131</u>	<u>\$ 298,691</u>

Common stock with a cost of \$47,837 and market value of \$291,131 is not traded on a quoted market; therefore, the year-end market value is determined as the average of the high and low sales price for the last quarter of 2002.

Joel Pomerene Foundation

Deposits - At year-end the carrying amount of the Foundations deposits were \$335,229 and the bank balance was 335,192, of which \$100,000 was covered by federal depository insurance. Amounts over \$100,000 are collateralized by the financial institution.

Investments - Investments are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) insured; b) registered; or c) held by the Foundation or its agent in the Foundation's name. Risk Categories 2 and 3 include investments which are neither insured or registered. Category 2 includes investments which are held by the counterparty's trust department (or agent) in the Foundation's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Foundation's name. The only investment held by the Foundation is a mutual fund held in a brokerage account with a balance of \$1,779. The investment in not a categorizable investment and is neither insured, registered, or collateralized.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31,	
	<u>2002</u>	<u>2001</u>
Total patient accounts receivable	\$ 5,926,644	\$ 4,967,922
Less allowances for:		
Contractual adjustments	1,323,600	688,800
Uncollectible adjustments	<u>900,000</u>	<u>700,000</u>
Net patient receivable	<u><u>\$ 3,703,044</u></u>	<u><u>\$ 3,579,122</u></u>

5. PLEDGES RECEIVABLE

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

	<u>Pledges Receivable</u>
Less Than One Year	\$ 200,210
One to Five Years	565,848
Over Five Years	<u>0</u>
Total Pledges Receivable	<u><u>\$ 766,058</u></u>

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

	<u>Pledges Receivable</u>
Gross Pledges Receivable	\$ 766,058
Allowance for Uncollectible Pledges	<u>(63,303)</u>
Net Pledges Receivable	<u><u>\$ 702,755</u></u>

6. THIRD-PARTY SETTLEMENTS

The Hospital has agreements with Medicare and Medicaid that provide for reimbursements to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amount reimbursed by third-party payers. The Hospital has reached final settlement with Medicare through 1999 and Medicaid through 1996.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

7. ASSETS LIMITED AS TO USE

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

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Internally designated for future capital improvements:		
Cash and cash equivalents	\$ 2,088,440	\$ 1,642,788
Certificates of deposit	2,919,853	2,118,690
Investments in common stock and mutual funds	298,691	294,421
Interest receivable	<u>2,880</u>	<u>4,445</u>
	<u>5,309,864</u>	<u>4,060,344</u>
Funds available for future construction - cash and cash equivalents	43,270	43,270
Held by trustee in connection with debt service	<u>268,032</u>	<u>268,032</u>
Total assets limited as to use	<u>\$ 5,621,166</u>	<u>\$ 4,371,646</u>
Assets limited as to use - current portion	\$ 110,770	\$ 130,502
Assets limited as to use - long term portion	<u>5,510,396</u>	<u>4,241,144</u>
Total assets limited as to use	<u>\$ 5,621,166</u>	<u>\$ 4,371,646</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

8. INVESTMENTS

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

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

Assets limited as to use:

Unrestricted:

	<u>Cost</u>	<u>Fair Value January 1, 2002</u>	<u>Fair Value December 31, 2002</u>	<u>Change in Fair Value</u>
Common Stock	\$ 47,837	\$ 286,958	\$ 291,131	\$ 4,173
Mutual Fund	4,976	7,463	7,560	97
Total	<u>\$ 52,813</u>	<u>\$ 294,421</u>	<u>\$ 298,691</u>	<u>\$ 4,270</u>

	<u>Cost</u>	<u>Fair Value January 1, 2001</u>	<u>Fair Value December 31, 2001</u>	<u>Change in Fair Value</u>
Common Stock	\$ 47,837	\$ 285,067	\$ 286,958	\$ 1,891
Mutual Fund	4,976	7,217	7,463	246
Total	<u>\$ 52,813</u>	<u>\$ 292,284</u>	<u>\$ 294,421</u>	<u>\$ 2,137</u>

9. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following:

	<u>December 31,</u>		<u>Depreciable</u>
	<u>2002</u>	<u>2001</u>	<u>Lives-Years</u>
Land and land improvements	\$ 794,449	\$ 789,002	10 - 20
Building and fixed equipment	11,386,868	11,305,155	5 - 20
Movable equipment	9,583,245	9,097,929	5 - 20
Construction in progress	55,311	17,360	
Modular medical office building	<u>560,323</u>	<u>559,523</u>	5 - 20
Total cost	\$ 22,380,196	\$ 21,768,969	
Less accumulated depreciation	<u>12,745,488</u>	<u>11,546,760</u>	
Property, plant, and equipment - net	<u>\$ 9,634,708</u>	<u>\$ 10,222,209</u>	

Depreciation and amortization totaled \$1,226,968 and \$1,142,399 in 2002 and 2001, respectively, including depreciation expense charged to net non-operating income of \$44,364 in 2002 and \$43,602 in 2001.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

10. LONG-TERM DEBT AND LEASES

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
County of Holmes Hospital Revenue Bonds, Series A, payable to the U.S. Farmers Home Administration (FmHA), dated April 10, 1991, due in 30 annual installments of principal plus interest at 5.875%, collateralized by the Hospital's revenue	\$ 1,311,085	\$ 1,823,417
Obligations under capital lease	<u>43,629</u>	<u>170,023</u>
Total	1,354,714	1,993,440
Less: current portion	<u>96,629</u>	<u>176,394</u>
Long term portion	<u>\$ 1,258,085</u>	<u>\$ 1,817,046</u>

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

The Hospital has entered into a non-cancelable lease agreement for equipment. These capital leases are due in monthly installments including interest at rates ranging from 5.2%. They expire at various times through 2003 and are collateralized by the equipment leased.

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Cost of equipment under capital lease	\$ 580,593	\$ 580,593
Less: accumulated amortization	<u>522,537</u>	<u>416,095</u>
Net carrying amount	<u>\$ 58,056</u>	<u>\$ 164,498</u>

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2003. Equipment operating lease expense totaled \$156,467 in 2002 and \$125,652 in 2001.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. The lease is set to expire March 1, 2005. Office lease expense totaled \$208,163 in 2002 and \$208,163 in 2001.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Minimum payments on these obligations to maturity as of December 31, 2002 are as follows:

	Long-Term Debt	Capital Leases	Operating Leases	Total
2003	\$ 48,000	\$ 44,108	\$ 218,571	\$ 310,679
2004	51,000	0	229,500	280,500
2005	55,000	0	60,244	115,244
2006	57,000	0	0	57,000
2007	61,000	0	0	61,000
Thereafter	<u>1,039,085</u>	<u>0</u>	<u>0</u>	<u>1,039,085</u>
Subtotal	1,311,085	44,108	508,315	1,863,508
Less amount representing interest	<u>0</u>	<u>479</u>	<u>0</u>	<u>479</u>
Total	<u>\$ 1,311,085</u>	<u>\$ 43,629</u>	<u>\$ 508,315</u>	<u>\$ 1,863,029</u>

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximates the fair value at December 31, 2002. The current rates and terms offered to the Hospital are comparable to the weighted averaged interest rates and terms of the current outstanding long-term debt and capital leases.

11. CHARITY CARE

The Hospital provides uncompensated care to indigent patients. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy amount to approximately \$996,000 and \$724,000 in 2002 and 2001, respectively.

12. FUND BALANCE - FOUNDATION

The Foundation reports the fund balance disaggregated into restricted and unrestricted components.

The Foundation's restricted fund balance is summarized below. All other assets are considered to be unrestricted.

<u>Description</u>	<u>12/31/02</u>	<u>12/31/01</u>
Austin Bailey Grant:		
- Counseling services	\$ 0	\$ 5,363
Elsie Galley Estate:		
- Elderly/handicapped parking lot	50,000	0
Capital Campaign:		
- Capital additions to Joel Pomerene Memorial Hospital	<u>264,814</u>	<u>0</u>
Total Temporarily Restricted Fund balance	<u>\$ 314,814</u>	<u>\$ 5,363</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

13. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payer arrangements that provide fixed payments to the Hospital at amounts different than its established rates. Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2002 and 2001 are as follows:

	Year Ended December 31,	
	2002	2001
Gross patient service revenue	\$ 32,993,233	\$ 27,674,506
Revenue deductions:		
Provision for contractual allowances	10,398,213	8,499,038
Provision for prompt payment discounts	<u>544,455</u>	<u>472,219</u>
Total revenue deductions	<u>10,942,668</u>	<u>8,971,257</u>
Net patient service revenue	<u>\$ 22,050,565</u>	<u>\$ 18,703,249</u>

14. PENSION PLANS

Public Employees Retirement System

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basis retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43251-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the Hospital is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were approximately \$983,000, \$862,000, and \$620,000.

15. POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Public Employees Retirement System of Ohio ("System"), the System provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary survivor recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 11 – Pension Plans, the employer contribution rate to the System was 13.55% of covered payroll. Of covered payroll, 5% was the portion that was used to fund health care in 2002, the latest information available.

**JOEL POMERENE MEMORIAL HOSPITAL AND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

As of December 31, 2001 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion respectively.

16. SELF-INSURED HEALTH BENEFITS

The Hospital was self-insured, subject to certain stop-loss coverage, for its employees' health benefits. As of June 2001, the Hospital is no longer self-insured. The Hospital now pays a monthly premium for their employees' health insurance.

17. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$76,359 and \$70,970 for 2002 and 2001, respectively. Advertising expenses are included in operating expenses in these financial statements

18. MEDICAL MALPRACTICE CLAIMS

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

19. RELATED ORGANIZATION

The Northeast Ohio Health Outreach Network (Network), is controlled by three area hospitals, one of which is Joel Pomerene Memorial Hospital. The Network was established to receive federal grant monies from the U.S. Department of Housing and Urban Development (HUD). Funds are distributed to the Hospital directly from HUD as determined by the Network. Changes in unrestricted net assets for 2002 and 2001 resulted from the following:

	<u>Beginning Balance</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ending Balance</u>
2002	\$ 264,559	\$ 0	\$ 44,364	\$ 220,195
2001	\$ 297,808	\$ 175,000	\$ 208,249	\$ 264,559

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

20. COMMITMENTS

The Hospital is involved in various pending claims and lawsuits. In the opinion of the Hospital's management, after consultation with legal counsel, the potential for loss on the claims and lawsuits will not materially effect the Hospital's financial position.

21. RELATED PARTY TRANSACTIONS

Joel Pomerene Memorial Hospital has provided funding to the Foundation totaling \$55,794 and \$56,099 for the years ended December 31, 2002 and 2001, respectively.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 5, 2003

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Joel Pomerene Memorial Hospital Enterprise Fund of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) as of and for the year ended December 31, 2002, and have issued our report thereon dated March 5, 2003. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Joel Pomerene Memorial Hospital's and Joel Pomerene Foundation's (Component Unit) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted an immaterial opportunity to strengthen internal controls over their financial reporting that reported to management of Joel Pomerene Memorial Hospital and Joel Pomerene Foundation (Component Unit) in a separate letter dated March 5, 2003.

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

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2003**