

JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

JANUARY 1, 2000 TO DECEMBER 31, 2000

PREPARED BY: REA & ASSOCIATES, INC.

JOEL POMERENE MEMORIAL HOSPITAL

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2000 AND 1999

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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, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

April 11, 2001

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 26, 2001

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Joel Pomerene Memorial Hospital an Enterprise Fund of Holmes County, Ohio, as of December 31, 2000 and 1999. 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 generally accepted auditing standards 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 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Joel Pomerene Memorial Hospital an Enterprise Fund of Holmes County, Ohio, as of December 31, 2000 and 1999, and the results of its operations, changes in fund balances, and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 26, 2001 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.

Rea & Associates, Inc.

JOEL POMERENE MEMORIAL HOSPITAL

BALANCE SHEETS - UNRESTRICTED FUNDS AS OF DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 706,619	\$ 685,228
Patient, accounts receivable	3,115,053	2,643,665
Other receivables	186,188	60,581
Current portion - notes and loans receivable	6,000	22,685
Inventories	200,435	204,208
Prepaid expenses and other assets	118,318	120,823
Current portion of assets limited as to use	110,853	127,012
Total current assets	<u>4,443,466</u>	<u>3,864,202</u>
NOTES AND LOANS RECEIVABLE, net of current portion	16,496	25,496
ASSETS LIMITED AS TO USE, net of current portion	4,753,851	5,556,470
PROPERTY, PLANT, AND EQUIPMENT, net	<u>9,023,177</u>	<u>7,765,686</u>
Total Assets	<u>\$ 18,236,990</u>	<u>\$ 17,211,854</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Current portion of long term debt and leases	\$ 167,926	\$ 158,789
Accounts payable	556,687	413,870
Accrued salaries, wages and employee benefits	925,412	895,255
Other accrued expenses	236,852	276,565
Third party settlements	370,121	241,219
Total current liabilities	<u>2,256,998</u>	<u>1,985,698</u>
LONG TERM DEBT AND LEASES, less current portion	1,995,023	2,164,949
FUND BALANCE:		
Unrestricted	13,984,969	13,061,207
Total fund balance	<u>13,984,969</u>	<u>13,061,207</u>
Total Liabilities and Fund Balance	<u>\$ 18,236,990</u>	<u>\$ 17,211,854</u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS - UNRESTRICTED FUNDS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
REVENUE:		
Net patient service revenue	\$ 16,530,677	\$ 16,203,755
Other operating revenue	364,767	383,745
Total revenue	<u>16,895,444</u>	<u>16,587,500</u>
EXPENSES:		
Salaries and wages	6,011,780	6,053,002
Employee benefits and payroll taxes	1,383,780	1,561,578
Supplies and other	4,729,002	4,731,587
Medical professional fees	2,058,751	1,967,328
Physician recruiting and incentive	292,411	72,325
Provision for bad debts	684,495	672,988
Depreciation and amortization	1,055,187	1,018,273
Interest	131,275	138,311
Total expenses	<u>16,346,681</u>	<u>16,215,392</u>
OPERATING INCOME	548,763	372,108
Net non-operating income	324,350	242,443
NE Network Grant - Net	227,236	70,572
Change in fair value of investments	<u>(176,587)</u>	<u>93,983</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 923,762</u>	<u>\$ 779,106</u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
UNRESTRICTED FUNDS		
BALANCE - Beginning of year	\$ 13,061,207	\$ 12,282,101
Revenues and gains in excess of expenses	<u>923,762</u>	<u>779,106</u>
BALANCE - End of year	<u><u>\$ 13,984,969</u></u>	<u><u>\$ 13,061,207</u></u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS - UNRESTRICTED FUNDS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payers	\$ 15,433,707	\$ 15,821,860
Cash paid to suppliers for services and goods	(6,996,243)	(6,722,723)
Cash payments to employees for services	(7,395,562)	(7,614,580)
Other operating revenue received	383,207	383,745
Net cash provided by operating activities	<u>1,425,109</u>	<u>1,868,302</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions and construction of capital assets - net	(2,375,083)	(931,323)
Proceeds from sale of capital asset	32,036	0
Principal payments on capital leases	(113,789)	(117,148)
Principal payments on capital related debts	(47,000)	(43,000)
Interest paid on capital related debt and capital leases	(131,274)	(138,311)
Placed in trust for capital related debt	(6,743)	(24,954)
Net cash used in capital and related financing activities	<u>(2,641,853)</u>	<u>(1,254,736)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net proceeds from grants	239,164	72,127
Net cash provided by noncapital financing activities	<u>239,164</u>	<u>72,127</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes and loans	25,685	(29,039)
Interest on investments	315,205	242,442
Purchases of investments	(206,828)	(767,573)
Net cash provided by (used in) investing activities	<u>134,062</u>	<u>(554,170)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(843,518)	131,523
CASH AND CASH EQUIVALENTS, Beginning of year	2,261,736	2,130,213
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,418,218</u>	<u>\$ 2,261,736</u>
Cash and cash equivalents include the following:		
Cash and equivalents	\$ 706,619	\$ 685,228
Assets limited as to use cash and cash equivalents:		
Board designated for future capital improvements	668,329	1,533,238
Funds available for future construction and equipment	43,270	43,270
Total cash and cash equivalents	<u>\$ 1,418,218</u>	<u>\$ 2,261,736</u>
A reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows:		
Income from operations	\$ 548,763	\$ 372,108
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,055,187	1,018,273
Bad debt expense	684,495	672,988
Interest expense	131,275	138,311
Loss on sale of capital asset	18,440	0
Changes in assets and liabilities:		
(Increase) decrease in patient accounts receivable	(1,155,886)	(395,114)
(Increase) decrease in other receivables	(125,606)	(60,581)
(Increase) decrease in inventories	3,773	(22,406)
(Increase) decrease in prepaid items	2,505	(41,514)
Increase (decrease) in accounts payable	142,817	105,255
Increase (decrease) in accrued expenses	(9,556)	67,763
Increase (decrease) in third-party settlements	128,902	13,219
Net cash provided by operating activities	<u>\$ 1,425,109</u>	<u>\$ 1,868,302</u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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 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.

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.

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.

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

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 nonoperating income when earned.

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 2000 and 1999, approximately 33% of the Hospital's total patient revenue was derived from Medicare payments while 7% and 6% was derived from Medicaid payments, respectively. Additionally, approximately 20% and 23% of the Hospital's total patient revenue was derived from individual self-payments in 2000 and 1999. The remaining revenue was derived primarily from commercial insurance payments.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassifications – Certain amounts in the 1999 financial statements have been reclassified to conform to their presentation in the 2000 financial statements.

2. DEPOSITS AND INVESTMENTS

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

	Cash and Cash Equivalents	Assets Whose Use Is Limited
Financial statements	\$ 706,619	\$ 4,864,703
Investments	0	(292,284)
Interest Receivable	0	(10,960)
Funds held by Trustee	0	(262,730)
Cash on hand	(600)	0
GASB Statement No. 3 deposits	<u>\$ 706,019</u>	<u>\$ 4,298,729</u>

The Hospital funds held by Holmes County and included in assets whose use is limited (\$262,730 at December 31, 2000) 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.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

2. DEPOSITS AND INVESTMENTS (continued)

Deposits - At December 31, 2000, the carrying amount of the Hospital's bank deposits for all funds is \$5,004,748 as compared to bank balances of \$5,202,563. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances \$312,538 is covered by Federal insurance programs and \$4,890,025 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.

	2000			Reported Amount	Fair Value
	Category 1	Category 2	Category 3		
Common stock	\$ 285,067	\$ 0	\$ 0	\$ 285,067	\$ 285,067
Mutual fund	7,217	0	0	7,217	7,217
Total investments	<u>\$ 292,284</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 292,284</u>	<u>\$ 292,284</u>

Common stock with a cost of \$47,837 and market value of \$285,067 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 2000.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31,	
	2000	1999
Total patient accounts receivable	\$ 4,430,453	\$ 4,137,065
Less allowances for:		
Contractual adjustments	615,400	793,400
Uncollectible adjustments	700,000	700,000
Net patient receivable	<u>\$ 3,115,053</u>	<u>\$ 2,643,665</u>

4. NOTES AND LOANS RECEIVABLE

Notes and loans receivable represent loans to physicians under various cash flow support and loan arrangements, amount due from self-insurance fund, and loan from Northeast Ohio Health Outreach Network Grant. The physician loans are to be repaid in varying monthly installments including interest at 4%. A summary of the amounts outstanding is as follows:

	December 31,	
	2000	1999
Gross notes and loans receivable	\$ 22,496	\$ 48,181
Less: Reserve for Uncollectibles	0	0
Total notes receivable	22,496	48,181
Less: Current Portion	6,000	22,685
Long term portion	<u>\$ 16,496</u>	<u>\$ 25,496</u>

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

5. 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 1997 and Medicaid through 1995.

6. 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>2000</u>	<u>1999</u>
Internally designated for future capital improvements:		
Cash and cash equivalents	\$ 668,329	\$ 1,533,238
Certificates of Deposit	3,587,130	3,380,301
Investments in common stock and mutual funds	292,284	468,871
Interest receivable	<u>10,960</u>	<u>1,815</u>
	<u>\$ 4,558,703</u>	<u>\$ 5,384,225</u>
Funds available for future construction - cash and cash equivalents	43,270	43,270
Held by trustee in connection with debt service	<u>262,731</u>	<u>255,987</u>
Total assets limited as to use	<u>\$ 4,864,704</u>	<u>\$ 5,683,482</u>
Assets limited as to use - current portion	\$ 110,853	\$ 127,012
Assets limited as to use - long term portion	<u>4,753,851</u>	<u>5,556,470</u>
Total assets limited as to use	<u>\$ 4,864,704</u>	<u>\$ 5,683,482</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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

7. 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, 2000</u>	<u>Fair Value December 31, 2000</u>	<u>Change in Fair Value</u>
Common Stock	\$ 47,837	\$ 462,031	\$ 285,067	\$ (176,964)
Mutual Fund	4,976	6,840	7,217	377
Total	<u>\$ 52,813</u>	<u>\$ 468,871</u>	<u>\$ 292,284</u>	<u>\$ (176,587)</u>

	<u>Cost</u>	<u>Fair Value January 1, 1999</u>	<u>Fair Value December 31, 1999</u>	<u>Change in Fair Value</u>
Common Stock	\$ 47,837	\$ 368,318	\$ 462,031	\$ 93,713
Mutual Fund	4,976	6,570	6,840	270
Total	<u>\$ 52,813</u>	<u>\$ 374,888</u>	<u>\$ 468,871</u>	<u>\$ 93,983</u>

8. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following:

	<u>December 31,</u>		<u>Depreciable Lives-Years</u>
	<u>2000</u>	<u>1999</u>	
Land and land improvements	\$ 773,077	\$ 772,102	10 - 20
Building and fixed equipment	8,410,427	8,085,332	5 - 20
Movable equipment	8,039,104	7,557,666	5 - 20
Construction in progress	1,485,063	8,700	
Sub-specialty medical clinic	214,198	214,198	5 - 20
Modular medical office building	<u>559,523</u>	<u>559,523</u>	5 - 20
Total cost	19,481,392	17,197,521	
Less accumulated depreciation	<u>10,458,215</u>	<u>9,431,835</u>	
Property, plant, and equipment - net	<u>\$ 9,023,177</u>	<u>\$ 7,765,686</u>	

Depreciation and amortization totaled \$1,067,527 and \$1,019,828 in 2000 and 1999, respectively, including depreciation expense charged to net non-operating income of \$11,928 in 2000 and \$1,555 in 1999.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

9. LONG-TERM DEBT AND LEASES

	December 31,	
	2000	1999
County of Holmes Hospital Revenue Bonds, Series A, B, and C, 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	\$ 1,873,000	\$ 1,920,000
Obligations under capital lease	<u>289,949</u>	<u>403,738</u>
Total	2,162,949	2,323,738
Less: current portion	<u>167,926</u>	<u>158,789</u>
Long term portion	<u>\$ 1,995,023</u>	<u>\$ 2,164,949</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 various non-cancelable lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 5.1% to 9.0%. They expire at various times through 2003 and are collateralized by the equipment leased.

	December 31,	
	2000	1999
Cost of equipment under capital lease	\$ 580,593	\$ 580,593
Accumulated amortization	<u>290,306</u>	<u>174,182</u>
Net carrying amount	<u>\$ 290,287</u>	<u>\$ 406,411</u>

The Hospital has entered into various operating lease agreements for equipment which expire at various times through 2002. Equipment operating lease expense totaled \$133,551 in 2000 and \$142,764 in 1999.

Effective January 1, 1998, the Hospital signed a lease agreement to lease software from a company under a three-year non-cancelable lease. Software expense totaled \$108,000 in 2000 and \$108,000 in 1999.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. Office lease expense totaled \$208,163 in 2000 and \$173,469 in 1999.

Minimum payments on these obligations to maturity as of December 31, 2000 are as follows:

	Long-Term Debt	Capital Leases	Operating Leases	Total
2001	\$ 48,000	\$ 132,324	\$ 208,163	\$ 388,487
2002	50,000	132,324	208,163	390,487
2003	53,000	44,108	208,163	305,271
2004	56,000	0	208,163	264,163
2005	60,000	0	52,041	112,041
Thereafter	<u>1,606,000</u>	<u>0</u>	<u>0</u>	<u>1,606,000</u>
Subtotal	1,873,000	308,756	884,693	3,066,449
Less amount representing interest	<u>0</u>	<u>18,807</u>	<u>0</u>	<u>18,807</u>
Total	<u>\$ 1,873,000</u>	<u>\$ 289,949</u>	<u>\$ 884,693</u>	<u>\$ 3,047,642</u>

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

9. LONG-TERM DEBT AND LEASES (continued)

The Hospital's long-term debt and capital leases are stated at the historical amount which approximates the fair value at December 31, 2000. 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.

10. 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 \$521,000 and \$389,000 in 2000 and 1999, 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, 2000 and 1999 are as follows:

	Year Ended December 31,	
	2000	1999
Gross patient service revenue	\$ 23,767,592	\$ 22,938,902
Revenue deductions:		
Provision for contractual allowances	6,748,614	6,270,346
Provision for prompt payment discounts	<u>488,301</u>	<u>464,801</u>
Total revenue deductions	<u>7,236,915</u>	<u>6,735,147</u>
Net patient service revenue	<u>\$ 16,530,677</u>	<u>\$ 16,203,755</u>

12. 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.

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%. PERS temporarily rolled back rates to 10.65% for 2000. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2000, 1999, and 1998 were approximately \$620,000, \$813,000, and \$768,000.

13. 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 service recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 12 – Retirement Commitments, the employer contribution rate to the System was 10.65% of covered payroll. Of covered payroll, 4.3% was the portion that was used to fund health care in 2000, the latest information available.

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

As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$10,805,500. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473,600 and \$1,668,100 respectively.

14. SELF-INSURED HEALTH BENEFITS

The Hospital is self-insured, subject to certain stop-loss coverage, for its employees’ health benefits. The Hospital accrues the estimated costs of reported and incurred-but-not-reported claims based on its actual claims history. At December 31, 2000 and 1999, the estimated amount of these liabilities, included in the Hospital’s other accrued expenses, was \$90,000. This liability is the Hospital’s best estimate based on available data. Changes in the reported balances of claims liabilities for 2000 and 1999 resulted from the following:

	<u>Beginning of Year Liability</u>	<u>Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balances at Year-End</u>
2000	\$ 90,000	\$ 794,220	\$ 794,220	\$ 90,000
1999	\$ 90,000	\$ 752,868	\$ 752,868	\$ 90,000

15. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$80,007 and \$53,958 for 2000 and 1999, respectively. Advertising expenses are included in operating expenses in these financial statements

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

16. 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.

17. RELATED ORGANIZATIONS

The Joel Pomerene Foundation, which is controlled by Joel Pomerene Memorial Hospital, was established to solicit contributions from the general public and to support the Hospital. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Foundation's unrestricted net assets totaled \$78,127 in 2000 and \$72,260 in 1999.

The Wayne Holmes Physician Hospital Organization (PHO), who consists of three hospitals, including Joel Pomerene Foundation, was established to negotiate contracts with managed care companies for the three hospitals along with physicians whom belong to the PHO. The Joel Pomerene Foundation did not contribute to the PHO during the year ended December 31, 2000.

The Northeast Ohio Health Outreach Network, which is controlled by Joel Pomerene Memorial Hospital, 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 2000 and 1999 resulted from the following:

	<u>Beginning Balance</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ending Balance</u>
2000	\$ 70,572	\$ 670,000	\$ 442,764	\$ 297,808
1999	\$ 0	\$ 155,000	\$ 84,428	\$ 70,572

18. 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.

19. CONTINGENCIES

The Hospital is in the process of renovating their Obstetrics department, which includes the addition of new birthing and maternity suites to the Hospital's existing facility. The total estimated cost for the renovation project is \$3.3 million. As of December 30, 2000, the Hospital's significant contractual purchase commitments for the construction project are as follows:

<u>Company</u>	<u>Amount Remaining</u>
Feinman Mechanical	\$ 211,071
Millersburg Electric	298,318
Jeffrey Carr Construction	398,270
Total	<u>\$ 907,659</u>

JOEL POMERENE MEMORIAL HOSPITAL

DECEMBER 31, 2000

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 26, 2001

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

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of Joel Pomerene Memorial Hospital Enterprise Fund of Holmes County, Ohio, as of and for the year ended December 31, 2000, and have issued our report thereon dated February 26, 2001. We have conducted our audit in accordance with generally accepted auditing standards and 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 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Joel Pomerene Memorial Hospital in a separate letter dated February 26, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Joel Pomerene Memorial Hospital's 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 other matters involving the internal control over financial reporting which we have reported to management of Joel Pomerene Memorial Hospital in a separate letter dated February 26, 2001.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 26, 2001

The Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

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

Compliance

We have audited the compliance of Joel Pomerene Memorial Hospital Enterprise Fund of Holmes County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. Joel Pomerene Memorial Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Joel Pomerene Memorial Hospital's management. Our responsibility is to express an opinion on Joel Pomerene Memorial Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Joel Pomerene Memorial Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Joel Pomerene Memorial Hospital's compliance with those requirements.

In our opinion, Joel Pomerene Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended December 31, 2000.

Internal Control Over Compliance

The management of Joel Pomerene Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Joel Pomerene Memorial Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Joel Pomerene Memorial Hospital's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2000-1.

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 of noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards - Cash

We have audited the financial statements of Joel Pomerene Memorial Hospital as of and for the year ended December 31, 2000, and have issued our report thereon dated February 26, 2001. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional

analysis as required by OMB Circular A-133 and is not a required part of the financial statements of Joel Pomerene Memorial Hospital. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Rea & Associates, Inc.

JOEL POMERENE MEMORIAL HOSPITAL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2000

<u>Federal Grantor Program Title</u>	<u>CFDA Number</u>	<u>Project Number</u>	<u>Program Amount</u>	<u>Federal Receipts</u>	<u>Federal Disbursements</u>
U. S. Department of Housing and Urban Development					
EDI - Special Project Grant	14.246	B-99-SP-OH-0248	\$1,000,000	\$670,000	\$661,870

**JOEL POMERENE MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
DECEMBER 31, 2000**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any reportable conditions in internal control disclosed on the audit of the general purpose financial statements?	No
(d) (1) (iii)	Were there any reported material non-compliance disclosed on the audit of the general purpose financial statements?	No
(d) (1) (iv)	Were there any reportable conditions in internal reported for major the major federal program?	Yes, but not a material weakness. See below.
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes - See below.
(d) (1) (vii)	Major Programs:	14.246
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

None were noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Department of Housing and Urban Development - CFDA No. 14.246

2000-1 Reportable Condition: Grant disbursements are not being processed through Joel Pomerene Hospital's computer system. The invoices are not being reviewed or approved by a Hospital employee. The checks are not signed by a Hospital employee. The executive director of the grant, who is not an employee of Joel Pomerene Hospital, performs all of the above.

Criteria: Internal controls should be in place that provide reasonable assurance that grant disbursements are for the proper purpose.

Effect: Federal grant money spent improperly. Future grants could be jeopardized.

Recommendation: An employee of Joel Pomerene Memorial Hospital familiar with the grant should review and approve all invoices prior to disbursement being made. This would be accomplished by signing and dating each invoice after approving. These invoices would then be sent to the accounting department of Joel Pomerene Memorial Hospital for processing and mailing.

**JOEL POMERENE MEMORIAL HOSPITAL
CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 .315(C)
DECEMBER 31, 2000**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2000-1	The Chief Financial Officer will review all invoices prior to being paid. Joel Pomerene Memorial Hospital would then process all disbursements and mail them.	04/30/2001	Steve Berkhouse, Chief Financial Officer



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
APRIL 19, 2001**