

**JOEL POMERENE MEMORIAL HOSPITAL**

**HOLMES COUNTY**

**JANUARY 1, 2001 TO DECEMBER 31, 2001**

**PREPARED BY: REA & ASSOCIATES, INC.**





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees  
Joel Pomerene Memorial Hospital

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, 2001 through December 31, 2001. 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 black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

May 1, 2002

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JOEL POMERENE MEMORIAL HOSPITAL

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FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2001 AND 2000

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 1, 2002

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, 2001 and 2000. 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 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 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, 2001 and 2000, and the results of its operations, changes in fund balances, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2002 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.

*Rea & Associates, Inc.*

JOEL POMERENE MEMORIAL HOSPITAL

BALANCE SHEETS - UNRESTRICTED FUNDS  
AS OF DECEMBER 31, 2001 AND 2000

	<b>2001</b>	<b>2000</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 778,023	\$ 706,619
Patient, accounts receivable	3,579,122	3,115,053
Other receivables	35,545	186,188
Inventories	185,449	200,435
Prepaid expenses and other assets	299,286	118,318
Current portion of assets limited as to use	130,502	110,853
Total current assets	5,007,927	4,437,466
ASSETS LIMITED AS TO USE, net of current portion	4,241,144	4,753,851
PROPERTY, PLANT, AND EQUIPMENT, net	10,222,209	9,045,673
Total Assets	<u>\$ 19,471,280</u>	<u>\$ 18,236,990</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long term debt and leases	\$ 176,394	\$ 167,926
Accounts payable	405,776	556,687
Accrued salaries, wages and employee benefits	1,203,068	925,412
Other accrued expenses	291,473	236,852
Third party settlement	433,188	370,121
Total current liabilities	2,509,899	2,256,998
LONG TERM DEBT AND LEASES, less current portion	1,817,046	1,995,023
<b>FUND BALANCE:</b>		
Unrestricted	15,144,335	13,984,969
Total fund balance	15,144,335	13,984,969
Total Liabilities and Fund Balance	<u>\$ 19,471,280</u>	<u>\$ 18,236,990</u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS - UNRESTRICTED FUNDS  
AS OF DECEMBER 31, 2001 AND 2000

	<b>2001</b>	<b>2000</b>
<b>REVENUE:</b>		
Net patient service revenue	\$ 18,703,249	\$ 16,530,677
Other operating revenue	288,317	364,767
Total revenue	18,991,566	16,895,444
<b>EXPENSES:</b>		
Salaries and wages	6,716,013	6,011,780
Employee benefits and payroll taxes	1,651,091	1,383,780
Supplies and other	5,370,651	4,729,002
Medical professional fees	2,169,282	2,058,751
Physician recruiting and incentive	263,708	292,411
Provisions for bad debts	616,588	684,495
Depreciation and amortization	1,098,798	1,055,187
Interest	123,299	131,275
Total expenses	18,009,430	16,346,681
OPERATING INCOME	982,136	548,763
Net non-operating income	208,342	324,350
NE Network Grant - net	(33,249)	227,236
Changes in fair value of investments	2,137	(176,587)
EXCESS OF REVENUES OVER EXPENSES	\$ 1,159,366	\$ 923,762

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENTS OF CHANGES IN FUND BALANCES  
AS OF DECEMBER 31, 2001 AND 2000

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	<u>2001</u>	<u>2000</u>
<b>UNRESTRICTED FUNDS</b>		
BALANCE - Beginning of year	13,984,969	13,061,207
Revenue and gains in excess of expenses	<u>1,159,366</u>	<u>923,762</u>
BALANCE - End of year	<u><u>15,144,335</u></u>	<u><u>13,984,969</u></u>

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS - UNRESTRICTED FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payers	\$ 17,836,302	\$ 15,433,707
Cash paid to suppliers for services and goods	(8,065,912)	(6,996,243)
Cash payments to employees for services	(8,089,448)	(7,395,562)
Other operating revenue received	287,249	383,207
Net cash provided by operating activities	1,968,191	1,425,109
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisitions and construction of capital assets - net	(2,319,042)	(2,375,083)
Proceed from sale of capital asset	1,175	32,036
Principal payments on capital leases	(121,509)	(113,789)
Principal payments on capital related debts	(48,000)	(47,000)
Interest paid on capital related debt and capital leases	(123,299)	(131,274)
Placed in trust for capital related debt	(5,302)	(6,743)
Net cash used in capital and related financing activities	(2,615,977)	(2,641,853)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Net proceeds from grants	10,353	239,164
Net cash provided by noncapital financing activities	10,353	239,164
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Notes and loans	0	25,685
Interest on investments	208,341	315,205
Sale (purchase) of investments	1,474,855	(206,828)
Net cash provided by (used in) investing activities	1,683,196	134,062
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>	<b>1,045,763</b>	<b>(843,518)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b>1,418,218</b>	<b>2,261,736</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$ 2,463,981</b>	<b>\$ 1,418,218</b>
Cash and cash equivalents include the following:		
Cash and equivalents	\$ 778,023	\$ 706,619
Assets limited as to use cash and cash equivalents:		
Board designated for future capital improvements	1,642,688	668,329
Funds available for future construction and equipment	43,270	43,270
Total cash and cash equivalents	\$ 2,463,981	\$ 1,418,218
Reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows:		
Income from operations	\$ 982,136	\$ 548,763
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,098,798	1,055,187
Bad debt expense	616,588	684,495
Interest expense	123,299	131,275
(Gain) loss on sale of capital asset	(1,068)	18,440
(Increase) decrease in patient accounts receivable	(1,080,657)	(1,155,886)
(Increase) decrease in other receivables	150,643	(125,606)
(Increase) decrease in inventories	14,986	3,773
(Increase) decrease in prepaid items	(180,967)	2,505
Increase (decrease) in accounts payable	(150,911)	142,817
Increase (decrease) in accrued expenses	332,277	(9,556)
Increase (decrease) in third-party settlements	63,067	128,902
Net cash provided by operating activities	\$ 1,968,191	\$ 1,425,109

See notes to financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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**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 non-operating 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 2001 and 2000, approximately 34% and 33%, respectively, of the Hospital's total patient revenue was derived from Medicare payments while 9% and 7% was derived from Medicaid payments, respectively. Additionally, approximately 19% and 20% of the Hospital's total patient revenue was derived from individual self-payments in 2001 and 2000, respectively. The remaining revenue was derived primarily from commercial insurance payments.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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**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 2000 financial statements have been reclassified to conform to their presentation in the 2001 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:

	<u>Cash and Cash Equivalents</u>	<u>Assets Whose Use Is Limited</u>
Financial statements	\$ 778,023	\$ 4,371,646
Investments	0	(294,421)
Interest Receivable	0	(4,445)
Funds held by Trustee	0	(268,032)
Cash on hand	(600)	0
GASB Statement No. 3 deposits	<u>\$ 777,423</u>	<u>\$ 3,804,748</u>

The Hospital funds held by Holmes County and included in assets whose use is limited (\$268,032 at December 31, 2001) 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, 2001 AND 2000

**2. DEPOSITS AND INVESTMENTS (continued)**

*Deposits* - At December 31, 2001, the carrying amount of the Hospital's deposits for all funds is \$4,582,171 as compared to bank balances of \$4,816,263. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances \$405,811 is covered by Federal insurance programs and \$4,410,452 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.

	2001				
	1	Category 2	3	Reported Amount	Fair Value
Common stock	\$ 286,958	\$ 0	\$ 0	\$ 286,958	\$ 286,958
Mutual fund	7,463	0	0	7,463	7,463
Total investments	<u>\$ 294,421</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 294,421</u>	<u>\$ 294,421</u>

Common stock with a cost of \$47,837 and market value of \$286,958 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 2001.

**3. PATIENT ACCOUNTS RECEIVABLE**

The details of patient accounts receivable are set forth below:

	December 31,	
	2001	2000
Total patient accounts receivable	\$ 4,967,922	\$ 4,430,453
Less allowances for:		
Contractual adjustments	688,800	615,400
Uncollectible adjustments	700,000	700,000
Net patient receivable	<u>\$ 3,579,122</u>	<u>\$ 3,115,053</u>

**4. 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 1998 and Medicaid through 1996.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

**5. 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>2001</u>	<u>2000</u>
Internally designated for future capital improvements:		
Cash and cash equivalents	\$ 1,642,788	\$ 668,329
Certificates of Deposit	2,118,690	3,587,130
Investments in common stock and mutual funds	294,421	292,284
Interest receivable	4,445	10,960
	<u>\$ 4,060,344</u>	<u>\$ 4,558,703</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>262,731</u>
Total assets limited as to use	<u>\$ 4,371,646</u>	<u>\$ 4,864,704</u>
Assets limited as to use - current portion	\$ 130,502	\$ 110,853
Assets limited as to use - long term portion	<u>4,241,144</u>	<u>4,753,851</u>
Total assets limited as to use	<u>\$ 4,371,646</u>	<u>\$ 4,864,704</u>

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

**6. 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, 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>

	<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>

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

**7. PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment consists of the following:

	December 31,		Depreciable Lives-Years
	2001	2000	
Land and land improvements	\$ 789,002	\$ 773,077	10 - 20
Building and fixed equipment	11,090,957	8,410,427	5 - 20
Movable equipment	9,097,929	8,061,600	5 - 20
Construction in progress	17,360	1,485,063	
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	21,768,969	19,503,888	
Less accumulated depreciation	<u>11,546,760</u>	<u>10,458,215</u>	
Property, plant, and equipment - net	<u>\$ 10,222,209</u>	<u>\$ 9,045,673</u>	

Depreciation and amortization totaled \$1,142,399 and \$1,067,527 in 2001 and 2000, respectively, including depreciation expense charged to net non-operating income of \$43,602 in 2001 and \$11,928 in 2000.

**8. LONG-TERM DEBT AND LEASES**

	December 31,	
	2001	2000
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	\$ 1,823,417	\$ 1,873,000
Obligations under capital lease	<u>170,023</u>	<u>289,949</u>
Total	1,993,440	2,162,949
Less: current portion	<u>176,394</u>	<u>167,926</u>
Long term portion	<u>\$ 1,817,046</u>	<u>\$ 1,995,023</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.

	December 31,	
	2001	2000
Cost of equipment under capital lease	\$ 580,593	\$ 580,593
Accumulated amortization	<u>416,095</u>	<u>290,306</u>
Net carrying amount	<u>\$ 164,498</u>	<u>\$ 290,287</u>

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

**8. LONG-TERM DEBT AND LEASES (continued)**

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2003. Equipment operating lease expense totaled \$125,652 in 2001 and \$133,551 in 2000.

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 \$0 in 2001 and \$108,000 in 2000.

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 2001 and \$208,163 in 2000.

Minimum payments on these obligations to maturity as of December 31, 2001 are as follows:

	<u>Long-Term Debt</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2002	50,000	132,324	208,163	390,487
2003	53,000	44,108	208,163	305,271
2004	55,000	0	208,163	263,163
2005	61,000	0	52,041	113,041
2006	62,000	0	0	62,000
Thereafter	<u>1,542,417</u>	<u>0</u>	<u>0</u>	<u>1,542,417</u>
Subtotal	1,823,417	176,432	676,530	2,676,379
Less amount representing interest	<u>0</u>	<u>6,410</u>	<u>0</u>	<u>6,410</u>
Total	<u>\$ 1,823,417</u>	<u>\$ 170,022</u>	<u>\$ 676,530</u>	<u>\$2,669,969</u>

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximates the fair value at December 31, 2001. 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.

**9. 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 \$724,000 and \$521,000 in 2001 and 2000, respectively.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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**10. 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, 2001 and 2000 are as follows:

	Year Ended December 31,	
	<u>2001</u>	<u>2000</u>
Gross patient service revenue	\$ 27,674,506	\$ 23,767,592
Revenue deductions:		
Provision for contractual allowances	8,499,038	6,748,614
Provision for prompt payment discounts	<u>472,219</u>	<u>488,301</u>
Total revenue deductions	<u>8,971,257</u>	<u>7,236,915</u>
Net patient service revenue	<u>\$ 18,703,249</u>	<u>\$ 16,530,677</u>

**11. 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%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The Hospital's contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were approximately \$862,000, \$620,000, and \$813,000.

**12. 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 12 – Retirement Commitments, the employer contribution rate to the System was 13.55% of covered payroll. Of covered payroll, 4.3% was the portion that was used to fund health care in 2001, the latest information available.

JOEL POMERENE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

**12. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)**

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, 2000, the unaudited estimated net assets available for future OPEB payments were \$11,735,900. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600 and \$2,628,700 respectively.

**13. 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.

**14. ADVERTISING**

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$70,970 and \$80,007 for 2001 and 2000, respectively. Advertising expenses are included in operating expenses in these financial statements

**15. MEDICAL MALPRACTICE CLAIMS**

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

**16. 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 were \$46,582 and \$79,888 at December 31, 2001 and 2000 respectively.

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 2001 and 2000 resulted from the following:

	<u>Beginning Balance</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Ending Balance</u>
2001	\$ 297,808	\$ 175,000	\$ 208,249	\$ 264,559
2000	\$ 70,572	\$ 670,000	\$ 442,764	\$ 297,808

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

**17. 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.

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 1, 2002

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, 2001, and have issued our report thereon dated March 1, 2002. 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 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 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.

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.

*Hea & Associates, Inc.*





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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 21, 2002**