

JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

JANUARY 1, 2003 TO DECEMBER 31, 2003

PREPARED BY: REA & ASSOCIATES, INC.



**Auditor of State
Betty Montgomery**

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, 2003 through December 31, 2003. 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

June 16, 2004

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

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 5, 2004

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities of Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio, and the governmental activities of Joel Pomerene Foundation (Component Unit) as of and for the years ended December 31, 2003 and 2002, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holmes County's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

As discussed in Note 1, the basic financial statements present only Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation (Component Unit) and are not intended to present fairly the financial position of Holmes County, Ohio, and the results of its operations and cash flows of its business-type activities in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, during the year ended December 31, 2002, the Hospital implemented a new financial reporting model as required by the provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Joel Pomerene Memorial Hospital a business-type activity of Holmes County, Ohio, and Joel Pomerene Foundation, as of December 31, 2003 and 2002, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2004 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 Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

This discussion and analysis of Joel Pomerene Memorial Hospital (business-type activities) and Joel Pomerene Foundation's (governmental activities) financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2003 and 2002. The intent of this discussion and analysis is to provide further information on the Hospital's and Foundation's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- In 2003, total assets increased \$1,548,291 over 2002 levels. Total business-type activities assets increased \$1,417,609 and total governmental activities assets increased \$130,682.
- Net accounts receivable increased \$247,569. Net days in accounts receivable were 60.4 at December 31, 2003, compared to 61.3 at December 31, 2002 and 69.9 at December 31, 2001.
- Total liabilities decreased \$567,640; current liabilities decreased \$453,379; other long term liabilities decreased \$114,261 from December 31, 2002 to December 31, 2003.
- Net cash provided by operating activities was \$3,271,147 in 2003 compared to \$4,363,977 in 2002. This decrease in cash provided is due to the increase in accounts receivable and inventory, and a decrease in third party payables.

Overview of Financial Statements

This annual report consists of financial statements and notes to those statements. These statements are organized to present Pomerene Hospital as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

Pomerene Hospital (the Hospital), a component unit of Holmes County, is organized as a county hospital under the provisions of the general statutes of the State of Ohio.

While the County is empowered to appropriate money from its general fund, from certain state and federal moneys it receives, and, with the approval of the electorate, levy taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no County appropriations for its operations.

The Board of Trustees, appointed by the Board of County Commissioners, the Probate and Common Pleas Judges, is charged with the maintenance, operation, and management of the Hospital, its financiers, and staff. The Hospital's primary mission is to provide high quality, cost-effective healthcare in a compassionate and friendly manner to the citizens of the greater Holmes County community.

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

The Financial Statements include the accounts and transactions of the Hospital and The Joel Pomerene Foundation. All significant inter-company accounts and transactions have been eliminated from the financial statements.

The Statement of Net Assets, the Statement of Activities, and Statement of Cash Flows, provide an indication of the Hospital's financial health. The Statement of Net Assets include the Hospital's assets and liabilities, using the accrual basis of accounting as well as an indication about which assets can be utilized for general purposes and which are restricted for other purposes. The Statement of Activities report the revenues and expenses during the time periods indicated. The Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of debt and capital asset acquisitions.

Financial Analysis of the Hospital

Pomerene Hospital's Net Assets changed from a year ago, increasing from \$18,266,723 to \$20,382,654. Table 1 provides a summary of the Hospitals Net Assets for 2003, compared to 2002, and 2002 compared to 2001.

**Table 1
Net Assets**

| | Business-Type Pomerene Hospital | | | Governmental Activities Joel Pomerene Foundation | | | Total | | |
|-------------------------------------|------------------------------------|---------------|---------------|---|--------------|-----------|---------------|---------------|---------------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Assets: | | | | | | | | | |
| Current Assets | \$ 6,468,761 | \$ 6,135,359 | \$ 5,007,927 | \$ 772,780 | \$ 520,744 | \$ 36,951 | \$ 7,241,541 | \$ 6,656,103 | \$ 5,044,878 |
| Assets Whose Use is Limited | 6,705,592 | 5,510,396 | 4,241,144 | 0 | 0 | 0 | 6,705,592 | 5,510,396 | 4,241,144 |
| Pledges Receivable | 0 | 0 | 0 | 399,875 | 519,089 | 0 | 399,875 | 519,089 | 0 |
| Capital Assets | 9,503,251 | 9,634,708 | 10,222,209 | 5,352 | 7,492 | 9,632 | 9,508,603 | 9,642,200 | 10,231,841 |
| Total Assets | 22,677,604 | 21,280,463 | 19,471,280 | 1,178,007 | 1,047,325 | 46,583 | 23,855,611 | 22,327,788 | 19,517,863 |
| Liabilities: | | | | | | | | | |
| Current Liabilities | 2,349,601 | 2,802,980 | 2,509,899 | 0 | 0 | 0 | 2,349,601 | 2,802,980 | 2,509,899 |
| Long-Term Debt | 1,143,824 | 1,258,085 | 1,817,046 | 0 | 0 | 0 | 1,143,824 | 1,258,085 | 1,817,046 |
| Total Liabilities | 3,493,425 | 4,061,065 | 4,326,945 | 0 | 0 | 0 | 3,493,425 | 4,061,065 | 4,326,945 |
| Net Assets: | | | | | | | | | |
| Capital Assets, Net of Related Debt | 8,199,264 | 8,279,994 | 8,228,769 | 5,352 | 7,492 | 9,632 | 8,204,616 | 8,287,486 | 8,238,401 |
| Unrestricted | 10,984,915 | 8,939,404 | 6,915,566 | 27,821 | 28,076 | 31,588 | 11,012,736 | 8,967,480 | 6,947,154 |
| Restricted | 0 | 0 | 0 | 1,144,834 | 1,011,757 | 5,363 | 1,144,834 | 1,011,757 | 5,363 |
| Total Net Assets | \$ 19,184,179 | \$ 17,219,398 | \$ 15,144,335 | \$ 1,178,007 | \$ 1,047,325 | \$ 46,583 | \$ 20,362,186 | \$ 18,266,723 | \$ 15,190,918 |

In 2003, the cash and investment position increased \$1,801,102 over 2002. Cash from business-type activities increased \$1,549,066, while cash from governmental activities increased \$252,036.

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

The Hospital maintains sufficient cash balances in current assets to cover approximately 30 days of expenses. All excess cash is transferred to assets limited as to use. The assets limited as to use at the end of 2003 is \$6,800,929 compared to \$5,621,166 at the end of 2002.

Capital Assets

Business-type capital assets decreased from \$9,634,708 to \$9,503,251 in 2003. The decrease relates to \$1,106,699 in capital additions, offset by \$1,185,495 in depreciation expense and net disposals of \$52,661. Major capital additions include a dual-head nuclear medicine camera, an I-Stat analyzer, a fetal monitor, an anesthesia machine and four med/surg patient units (bed, table and side chair.)

The only change to governmental capital assets was \$2,140 in depreciation expense.

Pledges Receivable and Pledge Revenue

At December 31, 2003 the net pledges receivable for the Joel Pomerene Foundation decreased \$119,214 from the previous year. The total pledges receivable was \$766,058 at December 31, 2002 and \$780,461 at December 31, 2003 with an allowance for uncollectible pledges of \$63,303 and \$121,031, respectively. Pledge revenues decreased \$881,949 from the previous year.

The reason for the drop in both pledges receivable and pledge revenue was that in 2002 the Joel Pomerene Foundation actively solicited pledges for the capital campaign for funds to be used in a construction/renovation project in the planning phase. In 2003 a hold was put on the campaign until the construction plans were finalized.

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

*Management's Discussion and Analysis
For the Years Ended December 31, 2003 and 2002
(Unaudited)*

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2003 compared to 2002, and 2002 compared to 2001.

Table 2
Revenues and Expenses

| | Business-Type Pomerene Hospital | | | Governmental Activities JP Foundation | | | Total | | |
|----------------------------------|------------------------------------|-------------------|-------------------|--|------------------|----------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Revenue: | | | | | | | | | |
| Net Patient Services Revenue | \$ 23,844,364 | \$ 22,050,565 | \$ 18,703,249 | \$ 0 | \$ 0 | \$ 0 | \$ 23,844,364 | \$ 22,050,565 | \$ 18,703,249 |
| JP Foundation Revenues | 0 | 0 | 0 | 205,703 | 1,087,652 | 119,764 | 205,703 | 1,087,652 | 119,764 |
| Other Revenues | 185,450 | 305,772 | 288,317 | 0 | 0 | 0 | 185,450 | 305,772 | 288,317 |
| Total Revenues | 24,029,814 | 22,356,337 | 18,991,566 | 205,703 | 1,087,652 | 119,764 | 24,235,517 | 23,443,989 | 19,111,330 |
| Operating Expenses: | | | | | | | | | |
| Salaries and Wages | 9,170,365 | 7,905,473 | 6,716,013 | 0 | 0 | 0 | 9,170,365 | 7,905,473 | 6,716,013 |
| Emp. Benefits and Payroll Taxes | 2,468,372 | 1,881,406 | 1,651,091 | 0 | 0 | 0 | 2,468,372 | 1,881,406 | 1,651,091 |
| Supplies and Other | 6,435,926 | 6,084,675 | 5,370,651 | 0 | 0 | 0 | 6,435,926 | 6,084,675 | 5,370,651 |
| Medical/Professional Fees | 1,592,635 | 2,213,345 | 2,169,282 | 0 | 0 | 0 | 1,592,635 | 2,213,345 | 2,169,282 |
| Physician Recruit/Incentive | 180,561 | 167,177 | 263,708 | 0 | 0 | 0 | 180,561 | 167,177 | 263,708 |
| Provision for Bad Debts | 1,011,306 | 821,634 | 616,588 | 0 | 0 | 0 | 1,011,306 | 821,634 | 616,588 |
| Depreciation | 1,141,187 | 1,182,604 | 1,098,798 | 0 | 0 | 0 | 1,141,187 | 1,182,604 | 1,098,798 |
| Interest | 106,723 | 111,445 | 123,299 | 0 | 0 | 0 | 106,723 | 111,445 | 123,299 |
| JP Foundation Expenses | 0 | 0 | 0 | 75,021 | 86,910 | 153,069 | 75,021 | 86,910 | 153,069 |
| Total Expenses | 22,107,075 | 20,367,759 | 18,009,430 | 75,021 | 86,910 | 153,069 | 22,182,096 | 20,454,669 | 18,162,499 |
| Operating Income | 1,922,739 | 1,988,578 | 982,136 | 130,682 | 1,000,742 | (33,305) | 2,053,421 | 2,989,320 | 948,831 |
| Non Operating Income | 81,229 | 126,579 | 208,342 | 0 | 0 | 0 | 81,229 | 126,579 | 208,342 |
| NE Network Grant Expenses | (44,234) | (44,364) | (33,249) | 0 | 0 | 0 | (44,234) | (44,364) | (33,249) |
| Change Fair Value of Investments | 5,053 | 4,270 | 2,137 | 0 | 0 | 0 | 5,053 | 4,270 | 2,137 |
| Excess Revenues Over Expenses | \$ 1,964,787 | \$ 2,075,063 | \$ 1,159,366 | \$ 130,682 | \$ 1,000,742 | \$ (33,305) | \$ 2,095,469 | \$ 3,075,805 | \$ 1,126,061 |

Net Patient Service Revenues

Compared to 2002, net patient service revenues increased \$1,793,799 or 8.13%.

For fiscal year 2003, the Hospital Board of Trustees approved a 2.5% price increase. This increase was effective January 1, 2003. The price increase accounts for approximately \$551,264 of the additional net patient service revenues generated by the Hospital. Higher volumes in areas such as radiology, laboratory, surgery and obstetrics account for the remainder of the increase in net patient service revenue.

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

Inpatient Business Activity

Total admissions in 2003 approximated 2002 levels, however the mix of admissions has changed:

| Specialty | 2003 | 2002 | 2001 | 2003 to 2002 % Change |
|-------------------|-------|-------|-------|--------------------------|
| Internal Medicine | 943 | 888 | 846 | 6.2% |
| General Surgery | 241 | 202 | 169 | 19.3% |
| Orthopedics | 68 | 56 | 40 | 21.4% |
| OB/GYN | 162 | 195 | 89 | -16.9% |
| Family Practice | 1,233 | 1,301 | 1,271 | -5.2% |
| Emergency | 6 | 4 | 8 | 50.0% |
| Total | 2,653 | 2,646 | 2,423 | 0.2% |

Total patient days for 2003 were also relatively unchanged when compared to 2002 and the average length of stay indicates a slight (2.4%) decrease:

| Unit | 2003 Patient Days | 2002 Patient Days | 2001 Patient Days | 2003 to 2002 % Change |
|--------------|----------------------|----------------------|----------------------|--------------------------|
| Medical | 4,381 | 4,566 | 4,332 | -4.1% |
| Surgical | 635 | 682 | 564 | -6.9% |
| Pediatrics | 285 | 285 | 269 | 0.0% |
| Special Care | 256 | 266 | 276 | -3.8% |
| Maternity | 1,102 | 1,040 | 906 | 6.0% |
| Nursery | 978 | 928 | 793 | 5.4% |
| Total | 7,637 | 7,767 | 7,140 | -1.7% |

| Unit | 2003 ALOS | 2002 ALOS | 2001 ALOS | 2003 to 2002 % Change |
|--------------|--------------|--------------|--------------|--------------------------|
| Medical | 3.9 | 4.1 | 4.2 | -4.9% |
| Surgical | 2.9 | 2.9 | 3.0 | 0.0% |
| Pediatric | 2.5 | 2.5 | 2.4 | 0.0% |
| Special Care | 1.8 | 1.9 | 1.6 | -5.3% |
| Maternity | 1.9 | 1.9 | 1.9 | 0.0% |
| Nursery | 1.8 | 1.7 | 1.7 | 5.9% |
| Total | 3.0 | 3.2 | 3.2 | -6.3% |

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

Outpatient Business Activity

The Hospital's outpatient business recorded a 9.8% growth, net of the 2.5% price adjustment. The areas that recorded the largest increases include radiology, laboratory, emergency room, rehabilitation services and surgery.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross revenues were recorded at 35.7% in 2003, compared to 35.3% in 2002, an increase of .4%. In 2001, deductions from revenue were recorded at 36.5%. The increase in the deductions from revenue is due in part to the price increase approved by the Board of Trustees, reduced reimbursement from Medicare and Medicaid as well as changes to third-party (managed care) payer contracts.

Charity care for 2003 increased 16.7% when compared to 2002 levels. In the late 1980s the State of Ohio developed a program designed to help hospital's address the increasing number of low income, special needs patients. The Hospital Care Assurance Program (HCAP) is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of funds is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment. For 2003, Pomerene Hospital's HCAP distribution was \$321,035 more than its assessment, compared to \$299,460 in 2002.

Operating Expenses

Total operating expenses in 2003 exceeded the 2002 levels by \$1,727,427 or 8.4%. In 2002 total operating expenses exceeded 2001 by \$2,291,100.

| Category | Business-Type Pomerene Hospital | | | Governmental Activities Joel Pomerene Foundation | | | Total | | |
|--------------------|------------------------------------|--------------|--------------|---|--------|---------|--------------|--------------|--------------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Salaries and Wages | \$ 9,170,365 | \$ 7,905,473 | \$ 6,716,013 | \$ 0 | \$ 0 | \$ 0 | \$ 9,170,365 | \$ 7,905,473 | \$ 6,716,013 |
| Employee Benefits | 2,468,372 | 1,881,406 | 1,651,091 | 0 | 0 | 0 | 2,468,372 | 1,881,406 | 1,651,091 |
| Supplies and Other | 6,435,926 | 6,084,675 | 5,370,651 | 0 | 0 | 0 | 6,435,926 | 6,084,675 | 5,370,651 |
| Med/Prof Fees | 1,592,635 | 2,213,345 | 5,169,282 | 0 | 0 | 0 | 1,592,635 | 2,213,345 | 5,169,282 |
| Bad Debt Expense | 1,011,306 | 821,634 | 616,588 | 0 | 0 | 0 | 19,667,298 | 18,084,899 | 18,907,037 |
| Depreciation | 1,141,187 | 1,182,604 | 1,098,798 | 0 | 0 | 0 | 1,141,187 | 1,182,604 | 1,098,798 |
| All Other Expenses | 287,284 | 278,622 | 387,007 | 7,521 | 86,910 | 153,069 | 294,805 | 365,532 | 540,076 |

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

Management's Discussion and Analysis

For the Years Ended December 31, 2003 and 2002

(Unaudited)

Salary & Wages

To remain competitive in the market place, the Board of Trustees approved hourly/salary pay adjustments as part of the 2003 Operating Budget. The adjustment totaled approximately \$225,000.

Total FTEs increased 28.5 from 2002 to 2003, which accounts for approximately \$855,000 in increased salary and wages and employee benefits. Part of the increase (approximately 12.4 FTEs) in FTEs is due to the cancellation of a contract for the rehabilitation services department as those employees are now included in the salary and wage line rather than the medical/professional fees line.

A third factor affecting the salary and wage increase was the total payout under the Hospital's Partners in Performance Program. In 2003 the total paid to employees was approximately \$621,000 as compared to \$601,000 in 2002 and \$370,250 in 2001.

Employee Benefits

The amounts paid relating to employee benefits increased \$586,966 from 2002 to 2003.

The main item that affected the increased in employee benefits was an increase in the amount paid for employee and dependant health insurance. This increase was \$314,231, but is now locked in until December 31, 2004.

The remainder of the increase in employee benefits is due to the increase in FTEs discussed previously.

Medical and Professional Fees

The medical and professional fees actually showed a decrease of \$620,710 in 2003 when compared to 2002. This decrease relates to the change of a contracted employee relationship for the rehabilitation department to a traditional employment arrangement.

The 2004 Operating Budget

The Board of Trustees approved the 2004 Operating Budget at its December 2003 meeting. The Budget was developed in conjunction with internal and external economic factors including the expected level of inflation, salary and wage surveys, new physicians and new services. The budget estimates nearly \$5.75 million in additional revenues. The additional revenues are based on signed physician recruitment contracts with a second general surgeon, a second OB/GYN and an additional Internal Medicine physician. All of the physicians are scheduled to arrive in the first quarter of 2004.

With the signed physician agreements the overall price increase included in the budget was 1.0%. The 2004 budget calls for an excess of revenues over expense of \$2,191,326 or 5.26% of gross patient revenue.

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

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2003 AND 2002

| | 2003 | | |
|---|------------------------------------|----------------------------------|----------------------|
| | Business-Type Activity | Governmental Activity | Total |
| | Joel Pomerene Memorial Hospital | Joel Pomerene Foundation | (Memorandum Only) |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 1,795,066 | \$ 462,803 | \$ 2,257,869 |
| Investments | 0 | 49,997 | 49,997 |
| Patient, accounts receivable | 3,930,145 | 0 | 3,930,145 |
| Current portion of pledges receivable, less allowance for uncollectible pledges | 0 | 259,555 | 259,555 |
| Third party settlements | 96,431 | 0 | 96,431 |
| Other receivables | 24,500 | 425 | 24,925 |
| Inventories | 403,064 | 0 | 403,064 |
| Prepaid expenses and other assets | 214,267 | 0 | 214,267 |
| Notes and loans receivable | 6,382 | 0 | 6,382 |
| Current portion of assets limited as to use | 95,337 | 0 | 95,337 |
| Total current assets | <u>6,565,192</u> | <u>772,780</u> | <u>7,337,972</u> |
| NON CURRENT ASSETS: | | | |
| Pledges receivable, net of current portion, less allowance for uncollectible accounts | 0 | 399,875 | 399,875 |
| Assets limited as to use, net of current portion | 6,705,592 | 0 | 6,705,592 |
| Capital assets, net of depreciation | 9,503,251 | 5,352 | 9,508,603 |
| Total non current assets | <u>16,208,843</u> | <u>405,227</u> | <u>16,614,070</u> |
| Total assets | <u>22,774,035</u> | <u>1,178,007</u> | <u>23,952,042</u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES: | | | |
| Current portion of long term debt and leases | 160,163 | 0 | 160,163 |
| Accounts payable | 341,722 | 0 | 341,722 |
| Accrued salaries, wages and employee benefits | 1,680,182 | 0 | 1,680,182 |
| Other accrued expenses | 263,965 | 0 | 263,965 |
| Third party settlements | 0 | 0 | 0 |
| Total current liabilities | <u>2,446,032</u> | <u>0</u> | <u>2,446,032</u> |
| LONG TERM LIABILITIES: | | | |
| Debt and leases, less current portion | <u>1,143,824</u> | <u>0</u> | <u>1,143,824</u> |
| Total liabilities | <u>3,589,856</u> | <u>0</u> | <u>3,589,856</u> |
| NET ASSETS: | | | |
| Capital assets, net of related debt | 8,199,264 | 5,352 | 8,204,616 |
| Restricted - by donor for specific uses | 0 | 1,144,834 | 1,144,834 |
| Unrestricted | 10,984,915 | 27,821 | 11,012,736 |
| Total net assets | <u>\$ 19,184,179</u> | <u>\$ 1,178,007</u> | <u>\$ 20,362,186</u> |

See accompanying notes to the financial statements.

| 2002 | | |
|---|---|-------------------------------|
| Business-Type Activity Joel Pomerene Memorial Hospital | Governmental Activity Joel Pomerene Foundation | Total (Memorandum Only) |
| \$ 1,814,155 | \$ 337,078 | \$ 2,151,233 |
| 0 | 0 | 0 |
| 3,703,044 | 0 | 3,703,044 |
| 0 | 183,666 | 183,666 |
| 0 | 0 | 0 |
| 50,100 | 0 | 50,100 |
| 213,277 | 0 | 213,277 |
| 244,013 | 0 | 244,013 |
| 0 | 0 | 0 |
| 110,770 | 0 | 110,770 |
| <u>6,135,359</u> | <u>520,744</u> | <u>6,656,103</u> |
| 0 | 519,089 | 519,089 |
| 5,510,396 | 0 | 5,510,396 |
| <u>9,634,708</u> | <u>7,492</u> | <u>9,642,200</u> |
| <u>15,145,104</u> | <u>526,581</u> | <u>15,671,685</u> |
| <u>21,280,463</u> | <u>1,047,325</u> | <u>22,327,788</u> |
| 96,629 | 0 | 96,629 |
| 451,492 | 0 | 451,492 |
| 1,645,765 | 0 | 1,645,765 |
| 284,094 | 0 | 284,094 |
| 325,000 | 0 | 325,000 |
| <u>2,802,980</u> | <u>0</u> | <u>2,802,980</u> |
| <u>1,258,085</u> | <u>0</u> | <u>1,258,085</u> |
| <u>4,061,065</u> | <u>0</u> | <u>4,061,065</u> |
| 8,279,994 | 7,492 | 8,287,486 |
| 0 | 1,011,757 | 1,011,757 |
| <u>8,939,404</u> | <u>28,076</u> | <u>8,967,480</u> |
| <u>\$ 17,219,398</u> | <u>\$ 1,047,325</u> | <u>\$ 18,266,723</u> |

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | 2003 | | |
|---|------------------------------------|----------------------------------|-----------------------------|
| | Business-Type Activity | Governmental Activity | Total |
| | Joel Pomerene Memorial Hospital | Joel Pomerene Foundation | (Memorandum Only) |
| REVENUE: | | | |
| Net patient service revenue | \$ 23,844,364 | \$ 0 | \$ 23,844,364 |
| Contributions | 0 | 2,175 | 2,175 |
| Fund-raising income | 0 | 17,206 | 17,206 |
| Interest income | 0 | 1,247 | 1,247 |
| Contributions - Joel Pomerene Memorial Hospital | 0 | 5,025 | 5,025 |
| Public support - capital campaign | 0 | 130,571 | 130,571 |
| Grants | 0 | 49,479 | 49,479 |
| Other operating revenue | 185,450 | 0 | 185,450 |
| Total revenue | <u>24,029,814</u> | <u>205,703</u> | <u>24,235,517</u> |
| EXPENSES: | | | |
| Salaries and wages | 9,170,365 | 0 | 9,170,365 |
| Employee benefits and payroll taxes | 2,468,372 | 0 | 2,468,372 |
| Supplies and other | 6,435,926 | 0 | 6,435,926 |
| Medical professional fees | 1,592,635 | 0 | 1,592,635 |
| Physician recruiting and incentive | 180,561 | 0 | 180,561 |
| Provision for bad debts | 1,011,306 | 0 | 1,011,306 |
| Depreciation and amortization | 1,141,187 | 2,140 | 1,143,327 |
| Interest | 106,723 | 0 | 106,723 |
| Legal and professional fees | 0 | 14,025 | 14,025 |
| Fund-raising expenses | 0 | 3,155 | 3,155 |
| Consulting | 0 | 905 | 905 |
| Austin Baily Grant expenses | 0 | 0 | 0 |
| AED Grant expenses | 0 | 22,800 | 22,800 |
| Diabetes Grant expenses | 0 | 2,346 | 2,346 |
| Medtronic Grant expenses | 0 | 23,679 | 23,679 |
| Charity care expenses | 0 | 148 | 148 |
| Community support | 0 | 1,088 | 1,088 |
| Administrative | 0 | 2,013 | 2,013 |
| State filing fee | 0 | 200 | 200 |
| Donation expense | 0 | 2,522 | 2,522 |
| Total expenses | <u>22,107,075</u> | <u>75,021</u> | <u>22,182,096</u> |
| OPERATING INCOME (LOSS) | 1,922,739 | 130,682 | 2,053,421 |
| Net non-operating income | 81,229 | 0 | 81,229 |
| NE Network Grant - Net | (44,234) | 0 | (44,234) |
| Change in fair value of investments | <u>5,053</u> | <u>0</u> | <u>5,053</u> |
| INCREASE (DECREASE) IN NET ASSETS | 1,964,787 | 130,682 | 2,095,469 |
| NET ASSETS AT BEGINNING OF THE YEAR (restated) | <u>17,219,392</u> | <u>1,047,325</u> | <u>18,266,717</u> |
| NET ASSETS AT THE END OF THE YEAR | <u>\$ 19,184,179</u> | <u>\$ 1,178,007</u> | <u>\$ 20,362,186</u> |

See accompanying notes to the financial statements.

| 2002 | | |
|------------------------------------|----------------------------------|--|
| Business-Type Activity | Governmental Activity | Total (Memorandum Only) |
| Joel Pomerene Memorial Hospital | Joel Pomerene Foundation | |
| \$ 22,050,565 | \$ 0 | \$ 22,050,565 |
| 0 | 51,450 | 51,450 |
| 0 | 17,541 | 17,541 |
| 0 | 1,110 | 1,110 |
| 0 | 55,794 | 55,794 |
| 0 | 961,757 | 961,757 |
| 0 | 0 | 0 |
| 305,772 | 0 | 305,772 |
| <u>22,356,337</u> | <u>1,087,652</u> | <u>23,443,989</u> |
| 7,905,473 | 0 | 7,905,473 |
| 1,881,406 | 0 | 1,881,406 |
| 6,084,675 | 0 | 6,084,675 |
| 2,213,345 | 0 | 2,213,345 |
| 167,177 | 0 | 167,177 |
| 821,634 | 0 | 821,634 |
| 1,182,604 | 2,140 | 1,184,744 |
| 111,445 | 0 | 111,445 |
| 0 | 54,719 | 54,719 |
| 0 | 16,156 | 16,156 |
| 0 | 880 | 880 |
| 0 | 5,363 | 5,363 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 7,552 | 7,552 |
| 0 | 100 | 100 |
| 0 | 0 | 0 |
| <u>20,367,759</u> | <u>86,910</u> | <u>20,454,669</u> |
| 1,988,578 | 1,000,742 | 2,989,320 |
| 126,579 | 0 | 126,579 |
| (44,364) | 0 | (44,364) |
| <u>4,270</u> | <u>0</u> | <u>4,270</u> |
| 2,075,063 | 1,000,742 | 3,075,805 |
| <u>15,144,329</u> | <u>46,583</u> | <u>15,190,912</u> |
| <u>\$ 17,219,392</u> | <u>\$ 1,047,325</u> | <u>\$ 18,266,717</u> |

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Business-Type Activities | |
|---|---------------------------------|---------------------|
| | Joel Pomerene Memorial Hospital | |
| | 2003 | 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third-party payers | \$ 23,221,432 | \$ 21,803,900 |
| Cash paid to suppliers for services and goods | (8,499,064) | (8,399,413) |
| Cash payments to employees for services | (11,604,320) | (9,344,182) |
| Other operating revenue received | 153,099 | 303,672 |
| Net cash provided by operating activities | <u>3,271,147</u> | <u>4,363,977</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisitions and construction of capital assets | (1,106,707) | (661,466) |
| Proceeds from sale of capital asset | 20,300 | 2,581 |
| Principal payments on capital leases | (82,977) | (126,394) |
| Principal payments on capital related debts | (350,250) | (512,333) |
| Interest paid on capital related debt and capital leases | (106,723) | (111,445) |
| Net cash used in capital and related financing activities | <u>(1,626,357)</u> | <u>(1,409,057)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Advances to physicians | (6,382) | 0 |
| Interest on investments | 125,462 | 126,579 |
| Net (purchases) and maturities of investments | (681,020) | (1,599,615) |
| Net cash provided by (used in) investing activities | <u>(561,940)</u> | <u>(1,473,036)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,082,850 | 1,481,884 |
| CASH AND CASH EQUIVALENTS, Beginning of year | 3,945,865 | 2,463,981 |
| CASH AND CASH EQUIVALENTS, End of year | <u>\$ 5,028,715</u> | <u>\$ 3,945,865</u> |
| Cash and cash equivalents include the following: | | |
| Cash and equivalents | \$ 1,795,066 | \$ 1,814,155 |
| Assets limited as to use cash and cash equivalents: | | |
| Board designated for future capital improvements | 3,190,379 | 2,088,440 |
| Funds available for future construction and equipment | 43,270 | 43,270 |
| Total cash and cash equivalents | <u>\$ 5,028,715</u> | <u>\$ 3,945,865</u> |
| A reconciliation of the general fund income from operations to net cash flows provided by operating activities is as follows: | | |
| Income from operations | \$ 1,922,739 | \$ 1,988,578 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,141,187 | 1,182,604 |
| Bad debt expense | 1,011,306 | 821,634 |
| Interest expense | 106,723 | 111,445 |
| Loss on sale of capital asset | (32,351) | (2,100) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in patient accounts receivable | (227,101) | (123,922) |
| (Increase) decrease in other receivables | 25,600 | (14,555) |
| (Increase) decrease in inventories | (189,789) | (27,826) |
| (Increase) decrease in prepaid items | 29,746 | 55,273 |
| Increase (decrease) in accounts payable | (109,770) | 45,716 |
| Increase (decrease) in accrued expenses | 14,288 | 435,318 |
| Increase (decrease) in third-party settlements | (421,431) | (108,188) |
| Net cash provided by operating activities | <u>\$ 3,271,147</u> | <u>\$ 4,363,977</u> |

See accompanying notes to the financial statements.

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

BALANCE SHEETS - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2003 AND 2002

| | <u>2003</u> | <u>2002</u> |
|---|-----------------------------|-----------------------------|
| | Joel Pomerene Foundation | Joel Pomerene Foundation |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 462,803 | \$ 337,078 |
| Investments | 49,997 | 0 |
| Receivables - other | 425 | 0 |
| Current portion of pledges receivable, less allowance for uncollectible pledges | <u>259,555</u> | <u>183,666</u> |
| Total current assets | 772,780 | 520,744 |
| NON CURRENT ASSETS: | | |
| Pledges receivable, net of current portion, less allowance for uncollectible accounts | <u>399,875</u> | <u>519,089</u> |
| Total Assets | <u>\$ 1,172,655</u> | <u>\$ 1,039,833</u> |
| LIABILITIES AND FUND BALANCE | | |
| NONCURRENT LIABILITIES: | | |
| Deferred revenue - Capital Campaign | <u>\$ 659,430</u> | <u>\$ 696,943</u> |
| FUND BALANCE: | | |
| Restricted - by donor for specific uses | 485,404 | 314,814 |
| Unrestricted | <u>27,821</u> | <u>28,076</u> |
| Total fund balance | <u>513,225</u> | <u>342,890</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,172,655</u> | <u>\$ 1,039,833</u> |

See accompanying notes to the financial statements.

**JOEL POMERENE MEMORIAL HOSPITAL AND
 JOEL POMERENE FOUNDATION (Component Unit)**
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET OF ASSETS GOVERNMENTAL ACTIVITIES
 AS OF DECEMBER 31, 2003 AND 2002

| | <u>2003</u> | <u>2002</u> |
|---|---------------------|---------------------|
| Total Governmental Fund Balances | \$ 513,225 | \$ 342,890 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. | 5,352 | 7,492 |
| Other long-term assets are not available to pay for current- period expenditures and therefore, are deferred in the funds. Capital Campaign | <u>659,430</u> | <u>696,943</u> |
| Net Assets of Governmental Activities | <u>\$ 1,178,007</u> | <u>\$ 1,047,325</u> |

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | <u>2003</u> | <u>2002</u> |
|---|-------------------------------------|-------------------------------------|
| | <u>Joel Pomerene Foundation</u> | <u>Joel Pomerene Foundation</u> |
| REVENUE: | | |
| Contributions | \$ 2,175 | \$ 51,450 |
| Fund-raising income | 17,206 | 17,541 |
| Interest income | 1,247 | 1,110 |
| Contributions - Joel Pomerene Memorial Hospital | 5,025 | 55,794 |
| Public support - capital campaign | 168,084 | 264,814 |
| Grants | 49,479 | 0 |
| Total revenue | <u>243,216</u> | <u>390,709</u> |
| EXPENSES: | | |
| Legal and professional fees | 14,025 | 54,719 |
| Fund-raising expenses | 3,155 | 16,156 |
| Consulting | 905 | 880 |
| Austin Baily Grant expenses | 0 | 5,363 |
| AED Grant expenses | 22,800 | 0 |
| Diabetes Grant expenses | 2,346 | 0 |
| Medtronic Grant expenses | 23,679 | 0 |
| Charity care expenses | 148 | 0 |
| Community support | 1,088 | 0 |
| Administrative | 2,013 | 7,552 |
| State filing fee | 200 | 100 |
| Donation expense | 2,522 | 0 |
| Total expenses | <u>72,881</u> | <u>84,770</u> |
| EXCESS OF REVENUES OVER EXPENSES | 170,335 | 305,939 |
| FUND BALANCE, BEGINNING OF YEAR | <u>342,890</u> | <u>36,951</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 513,225</u> | <u>\$ 342,890</u> |

See accompanying notes to the financial statements.

**JOEL POMERENE MEMORIAL HOSPITAL AND
 JOEL POMERENE FOUNDATION (Component Unit)**
 RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------|-------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 170,335 | \$ 305,939 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. | | |
| Capital Asset Additions | (2,140) | (2,140) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | | |
| Capital Campaign | <u>(37,513)</u> | <u>696,943</u> |
| Change in Net Assets | <u>\$ 130,682</u> | <u>\$ 1,000,742</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. NATURE OF BUSINESS

Joel Pomerene Memorial Hospital

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

The Hospital financial statements have been presented in conformity with generally accepted accounting principles as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants and Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34). In accordance with hospital industry accounting practice, the financial statements include an unrestricted 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 the Hospital. The Foundation is a component unit of the Hospital. In addition, the Foundation actively participates in consortia, preferred provider organizations, and similar activities and develops innovative health care delivery strategies in which to participate on behalf of the Hospital.

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

The Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hospital and Foundation (the Reporting Entity) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. The Foundation has elected to use the Governmental Reporting Model as determined in the Governmental Accounting Standards Board Statement 29 (GASB 29 - The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities). The most significant of the Reporting Entity's accounting policies are described below.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

A. Basis of Presentation

The Reporting Entity's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Reporting Entity as a whole. These statements include the financial activities of the primary government and component unit. The statements distinguish between those activities of the Reporting Entity that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Reporting Entity at year-end. The statement of activities presents a comparison between expenses and revenues for the governmental activities and for the business-type activities of the Reporting Entity.

Fund Financial Statements The balance sheet and the statement of revenues, expenses and changes in fund balance present financial information at the fund level within the governmental activities. The Foundation is the only governmental fund presented in these basic financial statements

B. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Reporting Entity are included on the statement of net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Foundation, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Reporting Entity receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Reporting Entity must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Reporting Unit on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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 for the Foundation are comprised of long-term pledge receivables. Under the full accrual basis of accounting, all pledge receivables are considered to meet the revenue recognition criteria. Therefore, no deferred revenue is reported on the Statement of Net Assets.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Cash and Cash Equivalents

Cash balances reporting in the basic financial statements for the Hospital and the Foundation are maintained in separate accounts and managed by each respective entity.

During fiscal year 2003, the Reporting Unit had investments in common stock, mutual funds, government securities, certificates of deposit, and bank accounts. Investments are reported at fair value which is based on quoted market prices.

Investments of the cash and investments with a maturity of three months or less at the time they are purchased by the Reporting Unit are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

E. Investments

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.

F. Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2003 and 2002, approximately 30% and 31%, 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 2003 and 2002, respectively. The remaining revenue was derived primarily from commercial insurance payments.

G. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Assets Limited as to Use

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

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Reporting Entity maintains a capitalization threshold of five hundred dollars. The Reporting Entity does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment under capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

J. Charity Care

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Reporting Entity applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. 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.

N. Use of Estimates

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

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Effective January 1, 2002, the Reporting Unit adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34) as amended by GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

Statement No. 34 establishes financial reporting standards for all state and local governments and related entities. Statement No. 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change to the Hospital affects the format of the financial statements, presentation of net

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

assets, the inclusion of management’s discussion and analysis, additional disclosures for capital assets and debt. The impact to the Foundation results in two sets of financial statements, one reported under full accrual and the other under modified accrual. The beginning 2002 net assets were restated to reflect the change to the full accrual basis of accounting. See the table below for a summary of this restatement.

The government-wide financial statements split the Reporting Entity’s programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2001, caused by and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance The following describes the transition from governmental fund balance to net assets of the governmental activities.

| | <u>Joel Pomerene Foundation</u> |
|---|-------------------------------------|
| Fund Balances, December 31, 2001 | \$ 36,951 |
| GASB 34 Adjustments: | |
| Capital Assets | <u>9,632</u> |
| Governmental Activities Net Assets, December 31, 2001 | <u><u>\$ 46,583</u></u> |

4. 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:

**JOEL POMERENE MEMORIAL HOSPITAL AND
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| | Cash and Cash Equivalents | Assets Whose Use Is Limited |
|-------------------------------|--|--|
| Financial statements | \$ 1,795,066 | \$ 6,800,929 |
| Cash deposits | 3,190,379 | (3,190,379) |
| Certificates of Deposit | 2,992,539 | (2,992,539) |
| Interest receivable | 0 | (2,965) |
| Funds held by trustee | 0 | (268,032) |
| Construction deposits | 43,270 | (43,270) |
| Cash on hand | (600) | 0 |
| GASB Statement No. 3 deposits | <u>\$ 8,020,654</u> | <u>\$ 303,744</u> |

The Hospital funds held by Holmes County and included in assets whose use is limited (\$268,032 at December 31, 2003) 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, 2003, the carrying amount of the Hospital's deposits for all funds is \$8,020,654 as compared to bank balances of \$7,854,651. The differences in carrying amounts and bank balances are caused by outstanding checks, deposits in-transit, and other reconciling items. Of the bank balances, \$400,000 is covered by Federal insurance programs and \$7,454,651 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.

| | 2003 | | | | |
|-------------------|-------------------|-----------------------|-----------------|----------------------------|-----------------------|
| | 1 | Category 2 | 3 | Reported Amount | Fair Value |
| Common stock | \$ 296,146 | \$ 0 | \$ 0 | \$ 296,146 | \$ 296,146 |
| Mutual fund | | | 7,598 | 7,598 | 7,598 |
| Total investments | <u>\$ 296,146</u> | <u>\$ 0</u> | <u>\$ 7,598</u> | <u>\$ 303,744</u> | <u>\$ 303,744</u> |

Common stock with a cost of \$47,837 and market value of \$296,146 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 2003.

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NOTES TO THE FINANCIAL STATEMENTS
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Joel Pomerene Foundation

Deposits - At year-end the carrying amount of the Foundations deposits was \$462,803 and the bank balance was \$476,757, 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.

| | 1 | Category | | 3 | Reported | Fair |
|-------------------------|------------------|-----------------|--|-------------------|-------------------|-------------------|
| | | 2 | | | Amount | Value |
| Common stock | \$ 25,000 | \$ 0 | | \$ 0 | \$ 25,000 | \$ 25,000 |
| Government Securities | | | | 125,419 | 125,419 | 125,419 |
| Certificates of Deposit | | | | 135,236 | 135,236 | 135,236 |
| Mutual Fund | | | | | 1,785 | 1,785 |
| Total investments | <u>\$ 25,000</u> | <u>\$ 0</u> | | <u>\$ 260,655</u> | <u>\$ 287,440</u> | <u>\$ 287,440</u> |

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

| | December 31, | |
|-----------------------------------|---------------------|---------------------|
| | 2003 | 2002 |
| Total patient accounts receivable | \$ 6,633,745 | \$ 5,926,644 |
| Less allowances for: | | |
| Contractual adjustments | 1,688,600 | 1,323,600 |
| Uncollectible adjustments | <u>1,015,000</u> | <u>900,000</u> |
| Net patient accounts receivable | <u>\$ 3,930,145</u> | <u>\$ 3,703,044</u> |

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6. PLEDGES RECEIVABLE

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

| | December 31, | |
|--------------------------|---------------------|-------------------|
| | 2003 | 2002 |
| Less than one year | \$ 307,241 | \$ 200,210 |
| One to five years | 473,220 | 565,848 |
| Over five years | <u>0</u> | <u>0</u> |
| Total pledges receivable | <u>\$ 780,461</u> | <u>\$ 766,058</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.

| | December 31, | |
|-------------------------------------|---------------------|-------------------|
| | 2003 | 2002 |
| Gross pledges receivable | \$ 780,461 | \$ 766,058 |
| Allowance for uncollectible pledges | <u>(121,031)</u> | <u>(63,303)</u> |
| Net pledges receivable | <u>\$ 659,430</u> | <u>\$ 702,755</u> |

**JOEL POMERENE MEMORIAL HOSPITAL AND
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NOTES TO THE FINANCIAL STATEMENTS
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7. THIRD-PARTY SETTLEMENTS

The Hospital has agreements with Medicare and Medicaid that provide for reimbursements to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amount reimbursed by third-party payers. The Hospital has reached final settlement with Medicare through 2001 and Medicaid through 1998.

8. ASSETS LIMITED AS TO USE

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

| | December 31, | |
|---|---------------------|---------------------|
| | 2003 | 2002 |
| Internally designated for future capital improvements: | | |
| Cash and cash equivalents | \$ 3,190,379 | \$ 2,088,440 |
| Certificates of deposit | 2,992,539 | 2,919,853 |
| Investments in common stock and mutual funds | 303,744 | 298,691 |
| Interest receivable | 2,965 | 2,880 |
| | <u>6,489,627</u> | <u>5,309,864</u> |
| | | |
| Funds available for future construction - cash and cash equivalents | 43,270 | 43,270 |
| | | |
| Held by trustee in connection with debt service | 268,032 | 268,032 |
| Total assets limited as to use | <u>\$ 6,800,929</u> | <u>\$ 5,621,166</u> |
| | | |
| Assets limited as to use - current portion | \$ 95,337 | \$ 110,770 |
| | | |
| Assets limited as to use - long term portion | 6,705,592 | 5,510,396 |
| Total assets limited as to use | <u>\$ 6,800,929</u> | <u>\$ 5,621,166</u> |

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

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NOTES TO THE FINANCIAL STATEMENTS
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9. INVESTMENTS

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

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

Assets limited as to use:

Unrestricted:

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

| | <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> |

**JOEL POMERENE MEMORIAL HOSPITAL AND
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NOTES TO THE FINANCIAL STATEMENTS
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10. CAPITAL ASSETS

Capital assets consist of the following:

| <u>Hospital:</u> | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|--------------------|---------------------|
| 2003 | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 794,449 | \$ 8,072 | \$ 0 | \$ 802,521 |
| Construction in Progress | 55,310 | 27,641 | 0 | 82,951 |
| Total Capital Assets not being depreciated | <u>849,759</u> | <u>35,713</u> | <u>0</u> | <u>885,472</u> |
| Capital Assets Being Depreciated | | | | |
| Building & Fixed Equipment | 11,172,671 | 142,878 | (3,794) | 11,311,755 |
| Moveable Inventory | 9,583,245 | 928,108 | (618,122) | 9,893,231 |
| Sub-Specialty Medical Clinic | 214,198 | 0 | 0 | 214,198 |
| Modular Medical Office Building | 560,323 | 0 | 0 | 560,323 |
| Total Capital Assets being depreciated | <u>21,530,437</u> | <u>1,070,986</u> | <u>(621,916)</u> | <u>21,979,507</u> |
| Less Accumulated Depreciation | <u>(12,745,488)</u> | <u>(1,185,421)</u> | <u>569,181</u> | <u>(13,361,728)</u> |
| Total Capital Assets being depreciated, net | <u>8,784,949</u> | <u>(114,435)</u> | <u>(52,735)</u> | <u>8,617,779</u> |
| Total Capital Assets, Net | <u>\$ 9,634,708</u> | <u>\$ (78,722)</u> | <u>\$ (52,735)</u> | <u>\$ 9,503,251</u> |
| 2002 | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 789,002 | \$ 5,447 | \$ 0 | \$ 794,449 |
| Construction in Progress | 17,358 | 37,952 | 0 | 55,310 |
| Total Capital Assets not being depreciated | <u>806,360</u> | <u>43,399</u> | <u>0</u> | <u>849,759</u> |
| Capital Assets Being Depreciated | | | | |
| Building & Fixed Equipment | 11,090,957 | 82,298 | (584) | 11,172,671 |
| Moveable Inventory | 9,097,929 | 534,949 | (49,633) | 9,583,245 |
| Sub-Specialty Medical Clinic | 214,198 | 800 | 0 | 214,998 |
| Modular Medical Office Building | 559,523 | 0 | 0 | 559,523 |
| Total Capital Assets being depreciated | <u>20,962,607</u> | <u>618,047</u> | <u>(50,217)</u> | <u>21,530,437</u> |
| Less Accumulated Depreciation | <u>(11,546,760)</u> | <u>(1,226,968)</u> | <u>28,240</u> | <u>(12,745,488)</u> |
| Total Capital Assets being depreciated, net | <u>9,415,847</u> | <u>(608,921)</u> | <u>(21,977)</u> | <u>8,784,949</u> |
| Total Capital Assets, Net | <u>\$ 10,222,207</u> | <u>\$ (565,522)</u> | <u>\$ (21,977)</u> | <u>\$ 9,634,708</u> |

Depreciation and amortization totaled \$1,185,421 and \$1,226,968 in 2003 and 2002, respectively, including depreciation expense charged to net non-operating income of \$44,234 in 2003 and \$44,364 in 2002.

**JOEL POMERENE MEMORIAL HOSPITAL AND
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| <u>Foundation:</u> | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|-------------|-------------------|
| 2003 | | | | |
| Capital Assets Being Depreciated | | | | |
| Equipment | \$ 10,702 | \$ 0 | \$ 0 | \$ 10,702 |
| Total Capital Assets being depreciated | 10,702 | 0 | 0 | 10,702 |
| Less Accumulated Depreciation | (3,210) | (2,140) | 0 | (5,350) |
| Total Capital Assets, Net | <u>\$ 7,492</u> | <u>\$ (2,140)</u> | <u>\$ 0</u> | <u>\$ 5,352</u> |
| 2002 | | | | |
| Capital Assets Being Depreciated | | | | |
| Equipment | \$ 10,702 | \$ 0 | \$ 0 | \$ 10,702 |
| Total Capital Assets being depreciated | 10,702 | 0 | 0 | 10,702 |
| Less Accumulated Depreciation | (1,070) | (2,140) | 0 | (3,210) |
| Total Capital Assets, Net | <u>\$ 9,632</u> | <u>\$ (2,140)</u> | <u>\$ 0</u> | <u>\$ 7,492</u> |

Depreciation and amortization totaled \$2,140 in 2003 and 2002.

**JOEL POMERENE MEMORIAL HOSPITAL AND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

11. LONG-TERM DEBT AND LEASES

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2003</u> | <u>2002</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 | \$ 960,835 | \$ 1,311,085 |
| Obligations under capital lease | 343,152 | 43,629 |
| Total | <u>1,303,987</u> | <u>1,354,714</u> |
| Less: current portion | 160,163 | 96,629 |
| Long term portion | <u>\$ 1,143,824</u> | <u>\$ 1,258,085</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 4.4%. They expire at various times through 2008 and are collateralized by the equipment leased.

| | <u>December 31,</u> | |
|---------------------------------------|---------------------|------------------|
| | <u>2003</u> | <u>2002</u> |
| Cost of equipment under capital lease | \$ 386,068 | \$ 580,593 |
| Less: accumulated amortization | 36,768 | 522,537 |
| Net carrying amount | <u>\$ 349,300</u> | <u>\$ 58,056</u> |

The Hospital has entered into various operating lease agreements for equipment, which expire at various times through 2003. Equipment operating lease expense totaled \$149,490 in 2003 and \$156,467 in 2002.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. The lease expires March 1, 2005. Office lease expense totaled \$218,571 in 2003 and \$208,163 in 2002.

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Minimum payments on these obligations to maturity as of December 31, 2003 are as follows:

| | Long-Term Debt | Capital Leases | Operating Leases | Total |
|--------------------------------------|-------------------|-------------------|---------------------|---------------------|
| 2003 | \$ 88,000 | \$ 85,352 | \$ 229,500 | \$ 402,852 |
| 2004 | 91,000 | 85,352 | 60,244 | 236,596 |
| 2005 | 96,000 | 85,352 | 0 | 181,352 |
| 2006 | 102,000 | 85,352 | 0 | 187,352 |
| 2007 | 108,000 | 35,563 | 0 | 143,563 |
| 2008-2012 | 475,835 | 0 | 0 | 475,835 |
| Subtotal | 960,835 | 376,971 | 289,744 | 1,627,550 |
| Less amount representing interest | 0 | 33,819 | 0 | 33,819 |
| Total | <u>\$ 960,835</u> | <u>\$ 343,152</u> | <u>\$ 289,744</u> | <u>\$ 1,593,731</u> |

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximates the fair value at December 31, 2003. The current rates and terms offered to the Hospital are comparable to the weighted averaged interest rates and terms of the current outstanding long-term debt and capital leases.

12. CHARITY CARE

The Hospital 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 are approximately \$1,130,000 and \$996,000 in 2003 and 2002, respectively.

**JOEL POMERENE MEMORIAL HOSPITAL AND
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NOTES TO THE FINANCIAL STATEMENTS
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13. FUND BALANCE - FOUNDATION

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

The Foundation's restricted fund balance for December 31, 2003 is summarized below. All other assets are considered to be unrestricted.

| Description | Balance 12/31/02 | Contributions | Released or Expended | Adjustments | 12/31/03 |
|--|---------------------|-------------------|-------------------------|----------------|-------------------|
| Restricted Fund Balance: | | | | | |
| Capital Campaign: | | | | | |
| - Capital additions to Joel Pomerene Memorial Hospital | \$ 264,814 | \$ 168,084 | \$ 0 | \$ 0 | \$ 432,898 |
| Diabetes Grant | | | | | |
| - Diabetes education | 0 | 3,000 | 2,346 | 0 | 654 |
| Medtronic Grant | | | | | |
| - Defibrillator purchase | 0 | 23,679 | 23,679 | 0 | 0 |
| AED Grant | | | | | |
| - Defibrillator purchase | 0 | 22,800 | 22,800 | 0 | 0 |
| Emergency Medical Fund | | | | | |
| - Prescriptions for the needy | 0 | 0 | 148 | 2,000 | 1,852 |
| Elsie Galley Estate: | | | | | |
| - Elderly/handicapped parking lot | 50,000 | 0 | 0 | 0 | 50,000 |
| | <u>314,814</u> | <u>217,563</u> | <u>48,973</u> | <u>2,000</u> | <u>485,404</u> |
| Unrestricted Fund Balance | <u>28,076</u> | <u>25,653</u> | <u>23,908</u> | <u>(2,000)</u> | <u>27,821</u> |
| Total Fund Balance | <u>\$ 342,890</u> | <u>\$ 243,216</u> | <u>\$ 72,881</u> | <u>\$ 0</u> | <u>\$ 513,225</u> |

The Foundation's restricted fund balance for December 31, 2002 is summarized below.

| Description | Balance 12/31/01 | Contributions | Released or Expended | Adjustments | 12/31/02 |
|--|---------------------|-------------------|-------------------------|-------------|-------------------|
| Restricted Fund Balance: | | | | | |
| Capital Campaign: | | | | | |
| - Capital additions to Joel Pomerene Memorial Hospital | \$ 0 | \$ 264,814 | \$ 0 | \$ 0 | \$ 264,814 |
| Austin Bailey Grant | | | | | |
| - Diabetes education | 5,363 | 0 | 5,278 | (85) | 0 |
| Elsie Galley Estate: | | | | | |
| - Elderly/handicapped parking lot | 0 | 50,000 | 0 | 0 | 50,000 |
| | <u>5,363</u> | <u>314,814</u> | <u>5,278</u> | <u>(85)</u> | <u>314,814</u> |
| Unrestricted Fund Balance | <u>31,588</u> | <u>75,895</u> | <u>79,492</u> | <u>85</u> | <u>28,076</u> |
| Total Fund Balance | <u>\$ 36,951</u> | <u>\$ 390,709</u> | <u>\$ 84,770</u> | <u>\$ 0</u> | <u>\$ 342,890</u> |

**JOEL POMERENE MEMORIAL HOSPITAL AND
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14. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payer arrangements that provide fixed payments to the Hospital at amounts different than its established rates. Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2003 and 2002 are as follows:

| | Year Ended December 31, | |
|--|----------------------------|----------------------|
| | 2003 | 2002 |
| Gross patient service revenue | \$ 35,814,033 | \$ 32,993,233 |
| Revenue deductions: | | |
| Provision for contractual allowances | 11,394,418 | 10,398,213 |
| Provision for prompt payment discounts | 575,251 | 544,455 |
| Total revenue deductions | 11,969,669 | 10,942,668 |
| Net patient service revenue | <u>\$ 23,844,364</u> | <u>\$ 22,050,565</u> |

15. PENSION PLANS

Public Employees Retirement System

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS 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, 2003, 2002, and 2001 were approximately \$1,160,000, \$983,000, and \$862,000.

16. POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Public Employees Retirement System of Ohio ("System"), the System provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary survivor recipients is also available. The Ohio Revised Code provides statutory authority for employee and employer contributions to the System. As described in Note 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.

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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.

17. ADVERTISING

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$78,761 and \$76,359 for 2003 and 2002, respectively. Advertising expenses are included in operating expenses in these financial statements

18. MEDICAL MALPRACTICE CLAIMS

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

19. RELATED ORGANIZATION

The Northeast Ohio Health Outreach Network (Network), is controlled by four area hospitals, one of which is Joel Pomerene Memorial Hospital. The Network was established to receive federal grant monies from the U.S. Department of Housing and Urban Development (HUD). Funds are distributed to the Hospital directly from HUD as determined by the Network. Changes in unrestricted net assets for 2003 and 2002 resulted from the following:

| | <u>Beginning Balance</u> | <u>Revenue</u> | <u>Expenses</u> | <u>Ending Balance</u> |
|------|------------------------------|----------------|-----------------|---------------------------|
| 2003 | \$ 220,195 | \$ 0 | \$ 44,234 | \$ 175,961 |
| 2002 | \$ 264,559 | \$ 0 | \$ 44,364 | \$ 220,195 |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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 \$5,025 and \$55,794 for the years ended December 31, 2003 and 2002, respectively.

22. INCOME GRANTS AND FORGIVENESS OF EDUCATIONAL LOANS

As part of the hospitals recruitment program for new physicians, they offer income grants and forgiveness of educations loans in exchange for a commitment to a minimum term of service. As of December 31, 2003 and 2002, the loan receivable in connection with these income grants and forgiveness of education loans was \$213,660 and \$434,527, respectively. The loans will be forgiven over time as the physicians fulfill their committed term of service. \$149,975 is set to be forgiven in 2004. For the year ended December 31, 2003 the Hospital forgave \$220,867 in connection with these loans receivable. During 2003 the Hospital did not provide any income grants due to the fact that all of the physicians had either opted out of the program as allowed by the agreements, or made enough money to exceed the guaranteed income level. As of December 31, 2003, the hospital was not committed to make any additional income grants.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

March 5, 2004

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 the business-type activities of Joel Pomerene Memorial Hospital, a business-type activity of Holmes County, Ohio, and the governmental activities of Joel Pomerene Foundation (Component Unit) as of and for the year ended December 31, 2003, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 5, 2004, which included an explanatory paragraph regarding the accounting change to GASB 34. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Joel Pomerene Memorial Hospital's and Joel Pomerene Foundation's (Component Unit) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted 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, 2004.

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.

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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
JUNE 29, 2004**