



**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

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The Board of Trustees
Robinson Memorial Portage County Hospital

We have reviewed the Independent Auditor's Report of the Robinson Memorial Portage County Hospital, Portage County, prepared by KPMG, for the audit period January 1, 1999 through December 31, 1999. 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 Robinson Memorial Portage County Hospital is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

June 12, 2000



1500 National City Center
1900 East Ninth Street
Cleveland, OH 44114-3495

Independent Auditors' Report

The Board of Trustees
Robinson Memorial Portage County Hospital:

We have audited the accompanying consolidated balance sheets of Robinson Memorial Portage County Hospital and subsidiaries (Hospital) as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in fund balance, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Robinson Memorial Portage County Hospital and subsidiaries as of December 31, 1999 and 1998, and the results of their operations, changes in fund balance, and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2000 on our consideration of the Hospital's internal control structure and on its compliance with laws and regulations.

KPMG LLP

March 10, 2000



**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 1999 and 1998

Assets	<u>1999</u>	<u>1998</u>
Current assets:		
Cash and cash equivalents	\$ 5,360,937	6,173,621
Assets limited as to use – required for current liabilities (notes 4 and 8)	539,960	266,878
Patient accounts receivable, less allowance for estimated uncollectibles of \$2,221,000 in 1999 and \$1,883,000 in 1998	15,702,754	16,547,768
Supplies and other current assets	<u>3,092,582</u>	<u>2,780,684</u>
Total current assets	24,696,233	25,768,951
Noncurrent assets limited as to use or restricted (notes 4 and 8)		
Property and equipment, net (note 5)	63,835,916	45,330,622
Other assets	<u>50,488,167</u>	<u>44,468,990</u>
	2,729,612	2,540,174
Total assets	<u>\$ 141,749,928</u>	<u>118,108,737</u>
Liabilities and Fund Balance		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 2,334,893	1,567,669
Accounts payable, including construction payable of \$354,000 in 1999 and \$95,700 in 1998	3,332,451	3,801,510
Accrued employee compensation	568,934	657,388
Accrued employee compensated absences	2,056,788	1,886,543
Accrued expenses	2,092,630	2,351,577
Estimated third-party payor settlements	<u>1,269,642</u>	<u>1,440,510</u>
Total current liabilities	11,655,338	11,705,197
Long-term debt, excluding current portion (note 6)	41,504,383	22,729,378
Self-insurance and other liabilities (note 8)	<u>3,003,812</u>	<u>2,791,668</u>
Total liabilities	56,163,533	37,226,243
Commitments and contingencies (notes 5 and 7)		
Fund balance:		
Unrestricted	84,136,858	78,811,206
Restricted	<u>1,449,537</u>	<u>2,071,288</u>
Total fund balance	<u>85,586,395</u>	<u>80,882,494</u>
Total liabilities and fund balance	<u>\$ 141,749,928</u>	<u>118,108,737</u>

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 1999 and 1998

	1999	1998
Revenue:		
Net patient service revenue (notes 2 and 3)	\$ 99,595,703	97,458,415
Other	3,618,118	3,418,520
Total revenue	103,213,821	100,876,935
Expenses:		
Salaries and wages	42,808,817	41,077,416
Employee benefits (note 7)	10,498,370	10,921,751
Supplies and other expenses	20,614,143	19,287,018
Professional services	6,926,371	6,637,367
Utilities	1,671,837	1,692,166
Pharmaceutical	3,792,075	3,562,218
Depreciation and amortization	5,650,644	5,621,287
Interest	1,484,514	1,496,660
Provision for bad debts	7,020,948	6,067,244
Total expenses	100,467,719	96,363,127
Operating income	2,746,102	4,513,808
Nonoperating gains – investment and other income, net	2,438,811	3,157,569
Excess of revenue and gains over expenses	5,184,913	7,671,377
Donated equipment and other	—	5,101
Change in net unrealized gains and losses on other than trading securities	(1,393,987)	—
Amounts released from restrictions	1,534,726	45,588
Increase in unrestricted fund balance	\$ 5,325,652	7,722,066

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Statements of Changes in Fund Balance

Years ended December 31, 1999 and 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Fund balance at December 31, 1997	\$ 71,089,140	1,722,866	72,812,006
Excess of revenue and gains over expenses	7,671,377	—	7,671,377
Interest income	—	103,922	103,922
Gifts, grants, and bequests	—	290,088	290,088
Donated equipment and other	5,101	—	5,101
Amounts released from restrictions	45,588	(45,588)	—
Increase in fund balance	<u>7,722,066</u>	<u>348,422</u>	<u>8,070,488</u>
Fund balance at December 31, 1998	78,811,206	2,071,288	80,882,494
Excess of revenue and gains over expenses	5,184,913	—	5,184,913
Interest income	—	120,624	120,624
Gifts, grants, and bequests	—	792,351	792,351
Change in net unrealized gains and losses on other than trading securities	(1,393,987)	—	(1,393,987)
Amounts released from restrictions	1,534,726	(1,534,726)	—
Increase (decrease) in fund balance	<u>5,325,652</u>	<u>(621,751)</u>	<u>4,703,901</u>
Fund balance at December 31, 1999	<u>\$ 84,136,858</u>	<u>1,449,537</u>	<u>85,586,395</u>

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Excess of revenue and gains over expenses	\$ 5,184,913	7,671,377
Adjustments to reconcile excess of revenue and gains over expenses to net cash provided by operating activities:		
Depreciation and amortization	5,650,644	5,621,287
Provision for bad debts	7,020,948	6,067,244
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,175,934)	(7,510,616)
Supplies and other current assets	(311,898)	(411,453)
Other assets	405,288	319,504
Accounts payable, accrued employee compensation, accrued employee compensated absences, accrued expenses, and estimated third-party settlements	(817,083)	(1,038,199)
Self-insurance and other liabilities	212,144	206,627
Net cash provided by operating activities	11,169,022	10,925,771
Cash flows from investing activities:		
Increase in assets limited as to use or restricted	(20,172,363)	(5,107,823)
Purchase of businesses	—	(82,998)
Net cash used in investing activities	(20,172,363)	(5,190,821)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	21,211,538	—
Increase in deferred bond issuance costs	(594,726)	—
Principal payments on long-term debt, net	(1,669,309)	(1,153,736)
Purchases of property and equipment, net	(11,669,821)	(5,112,813)
Restricted fund interest income	120,624	103,922
Restricted gifts, grants, and bequests	792,351	290,088
Donated equipment and other	—	5,101
Net cash provided by (used in) capital and related financing activities	8,190,657	(5,867,438)
Net decrease in cash and cash equivalents	(812,684)	(132,488)
Cash and cash equivalents at beginning of year	6,173,621	6,306,109
Cash and cash equivalents at end of year	\$ 5,360,937	6,173,621
Supplemental disclosure of cash flow information – cash paid for interest	\$ 1,283,267	1,507,029

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(1) Summary of Significant Accounting Policies

(a) Reporting Entity and Principles of Consolidation

Robinson Memorial Portage County Hospital (Hospital) is organized as a county hospital under provision of the general statutes of the State of Ohio, requiring no specific articles of incorporation. The Hospital is exempt from federal income taxes. A board of hospital trustees, appointed by the Board of County Commissioners and the Senior Probate and Common Pleas Judges, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide health care services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

The accompanying consolidated financial statements include the accounts and transactions of the Hospital, Robinson Memorial Hospital Foundation (Foundation), Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. Investments in affiliations which are not majority owned (Portage Physician Hospital Organization) are recorded on the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) 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).

(c) Use of Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Proprietary Fund Accounting

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

(e) Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(f) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

(g) Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for medical malpractice claims (see note 8).

(h) Consolidated Statements of Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

(i) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payors. 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.

(j) Restricted Funds

Restricted funds are those whose use by the Hospital has been limited by donors to a specific time period or purpose or to be maintained by the Hospital in perpetuity. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted funds are reclassified as unrestricted funds and reported in the consolidated statements of changes in fund balance as amounts released from restrictions.

(k) Investment Income

Investment income of the self-insurance trust funds and certain bond funds, included in assets limited as to use, is recorded as other revenue. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments which are part of restricted funds are added to (deducted from) restricted funds. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(l) *Charity Care*

The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(m) *Concentrations of Credit Risk*

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of cash and cash equivalents, patient accounts receivable, and assets limited as to use or restricted.

The Hospital places its cash and cash equivalents with high credit quality financial institutions. The Hospital's assets limited as to use or restricted are primarily invested in U.S. Treasury instruments. Concentration of credit risk with respect to these investments is limited due to no one investment or group of similar investments, outside of those backed by the U.S. Government, creating a significant concentration.

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no one payor source represents more than 10% of the Hospital's patient accounts receivable. The Hospital maintains an allowance for losses based on the expected collectibility of patient accounts receivable.

Recent Federal legislation, including the Balanced Budget Act of 1997, have included provisions to reduce Medicare payments to health care providers as well as phase out cost-based reimbursement mechanisms to prospective payment methodologies. Prospective payment systems for hospital outpatient services are being developed and will be phased in at various dates commencing during 2000. Changes in Medicare reimbursement as a result of the Health Care Financing Administration's implementation of the provisions of recent Medicare legislation may have an adverse effect on the Hospital's net patient service revenues.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Hospital's consolidated financial position or consolidated results of operations.

(n) *Donations, Other Than Cash*

Donated supplies, property and equipment, and investments are recorded at fair market value at date of donation, which is then treated as cost.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(o) Assets Limited as to Use or Restricted

Investments set aside for Board-designated purposes for future capital improvements or limited by financing, insurance, or other similar arrangements are considered to be assets limited as to use. Assets limited as to use or restricted, including cash and cash equivalents, are invested in the State Treasury Asset Reserve Funds of Ohio (STAR Ohio), money market accounts, common stocks, and certificates of deposit and are stated at fair value.

(p) Deposits/Investments

Deposits are collateralized by the depository bank with pledged securities. Including the deposit insurance provided by the Federal Deposit Insurance Corporation, this collateralizing process equals or exceeds the Hospital's carrying value. Collateral is held by the depository bank in the name of the Hospital.

GASB Statement 3 requires Hospital investments to be categorized to give an indication of the potential for losses associated with the custody of the deposits and investment securities. Category 1 includes deposits or investment securities that are insured, registered, or in the physical possession of the Hospital. Category 2 includes uninsured deposits that are collateralized by securities held in the physical possession of the Hospital's financial institution or its trust department, in the Hospital's name. Category 3 includes uninsured and uncollateralized deposits, or uninsured or unregistered investments held in the physical possession of the Hospital's financial institution, but not in the Hospital's name. STAR Ohio funds are part of the investment fund operated by the Ohio State Treasurer and are unclassified since they are not evidenced by securities that exist in physical or book entry form.

<u>1999</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying value</u>
Insured deposits	\$ 303,740	—	303,740
Uninsured deposits	—	1,410,395	1,410,395
U.S. Treasury obligations	64,887,090	—	64,887,090
Equity securities	<u>1,508,128</u>	<u>—</u>	<u>1,508,128</u>
Subtotal	<u>\$ 66,698,958</u>	<u>1,410,395</u>	68,109,353
STAR Ohio			1,623,771
Petty cash			<u>3,689</u>
Total cash and investments			<u>\$ 69,736,813</u>

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

<u>1998</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying value</u>
Insured deposits	\$ 276,375	—	276,375
Uninsured deposits	—	762,301	762,301
U.S. Treasury obligations	45,938,465	—	45,938,465
Equity securities	<u>1,317,988</u>	<u>—</u>	<u>1,317,988</u>
Subtotal	<u>\$ 47,532,828</u>	<u>762,301</u>	48,295,129
STAR Ohio			3,472,546
Petty cash			<u>3,446</u>
Total cash and investments			<u>\$ 51,771,121</u>

(q) Supplies

The inventory of supplies is valued at the lower of cost (determined by the weighted-average method) or net realizable value.

(r) Property and Equipment

Property and equipment is stated at cost. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives, using the straight-line method. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred.

Title to land and buildings is in the name of the Board of Portage County Commissioners. Full operating control of these assets is vested in the Hospital's Board of Trustees.

(s) Goodwill

Goodwill amounting to \$1,206,000 and \$1,389,000 at December 31, 1999 and 1998, respectively, is included in other assets. Goodwill relates to the acquisition of Med-Center One, a wholly owned subsidiary of the Hospital, as well as other asset acquisitions. Goodwill is being amortized on a straight-line method based on the estimated lives of the acquired assets.

The Hospital reviews for impairment whenever events or changes in circumstances indicates that the carrying amount of goodwill may not be recoverable under the provisions of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(2) Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 1999 and 1998, the estimated charges forgone of providing charity care services and supplies were \$2,800,000 and \$2,969,000, respectively.

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services other than ambulatory surgery, laboratory, and radiology, continue to be paid on a reimbursement methodology or a percentage of reasonable cost. As a result, final reimbursement for these services will be determined after submission of the Hospital's cost reports and audits by the third-party payors. Outpatient ambulatory surgery, laboratory, and radiology are paid based upon prospectively determined fee schedules.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The methods for payment under these agreements include prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates.

Program examinations of cost reports have been finalized for the Medicare program through 1996 and the Medicaid program through 1994. Provisions for estimated reimbursement adjustments have been provided in the accompanying consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(4) Assets Limited as to Use or Restricted

As of December 31, 1999 and 1998, assets limited as to use or restricted, at fair value, have been set aside in the following funds:

	1999	1998
Board of trustees:		
Funded depreciation and other	\$ 31,104,446	26,132,557
Self-insurance trust	5,187,936	5,159,861
Excess fund	14,922,904	12,431,179
Funds held by trustee under bond indenture – bond funds	11,893,007	266,878
Restricted by donor	1,267,583	1,607,025
Total assets limited as to use or restricted	64,375,876	45,597,500
Less assets limited as to use or restricted – required for current liabilities	539,960	266,878
	\$ 63,835,916	45,330,622

(5) Property and Equipment

Property and equipment consist of the following at December 31, 1999 and 1998:

	1999	1998
Land and land improvements	\$ 3,108,966	3,078,876
Buildings	34,709,243	34,329,645
Fixed and movable equipment	58,335,454	55,575,075
	96,153,663	92,983,596
Less accumulated depreciation	54,443,759	49,082,397
	41,709,904	43,901,199
Construction in progress	8,778,263	567,791
	\$ 50,488,167	44,468,990

For the year ended December 31, 1999, interest costs approximating \$128,000 were capitalized as part of the construction of capital assets.

Construction contracts of approximately \$10,574,000 exist for the construction of a new emergency room and the renovation of the obstetrical department. As of December 31, 1999, the remaining commitment on these contracts approximated \$1,796,000.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(6) Long-term Debt

A summary of long-term debt at December 31, 1999 and 1998, is as follows:

	1999	1998
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$251,577 at December 31, 1999; bearing interest at rates ranging from 4.0% to 5.25% and maturing in varying amounts through 2019	\$ 20,598,423	—
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of \$219,867 and \$233,922 at December 31, 1999 and 1998, respectively; bearing interest at rates ranging from 4.5% to 6.5% and maturing in varying amounts through 2015	13,415,133	13,926,078
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85% to 6.5% and maturing in varying amounts through 2007	9,045,000	9,935,000
Notes and other long-term debt	780,720	435,969
	43,839,276	24,297,047
Less current portion	2,334,893	1,567,669
	\$ 41,504,383	22,729,378

The Hospital Revenue Bonds, Series 1999 (Series 1999 Bonds) were issued by the County of Portage, Ohio (County) in 1999 for the purpose of providing funds to pay costs of Hospital facilities, including costs of constructing and equipping a new emergency room, improving and renovating the obstetrical department, improving the cardiopulmonary unit, and acquiring, constructing and equipping certain other Hospital facilities. To secure the payment of Bond Service charges and the performance of their other obligations under the Indenture, the Board of Commissioners and Hospital Trustees have pledged, assigned and granted a security interest in favor of the Trustee in the Net Hospital Receipts and the Special Funds, as defined in the 1999 Indenture. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

The Series 1999 Bonds consist of \$7,775,000 outstanding Serial bonds which mature in increasing amounts from \$585,000 on November 15, 2000 to \$715,000 on November 15, 2009; \$5,650,000 term bonds due November 15, 2014; and \$7,425,000 term bonds due November 15, 2019. Early redemption privileges are available.

The Hospital Revenue Bonds, Series 1995 (Series 1995 Bonds) were issued by the County of Portage, Ohio (County) in 1995 to fund the cost associated with various Hospital construction projects including the construction of an ambulatory surgery center and an outpatient facility. The Series 1995 Bonds were issued on a parity with the County's \$13,110,000 Hospital Revenue Bonds, Series 1994 (Series 1994 Bonds).

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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December 31, 1999 and 1998

The Series 1995 Bonds consist of \$3,755,000 outstanding serial bonds which mature in increasing amounts from \$550,000 on November 15, 2000 to \$715,000 on November 15, 2005; \$3,315,000 term bonds due November 15, 2009; and \$6,565,000 term bonds due November 15, 2015. Early redemption privileges are available.

The Series 1994 Bonds were issued as Additional Bonds in accordance with the requirements of the Trust Indenture dated November 15, 1985 (1985 Indenture). The Series 1994 Bonds constitute special obligations of the County payable solely from a pledge of funds on deposit with the Trustee and Net Hospital Receipts as defined in the 1985 Indenture. Under the provisions of the 1985 Indenture, the Hospital is required to make specific deposits to the Trustee. Monthly deposits into the Bond Fund are made in amounts sufficient to assure the payment of all interest and the redemption of the Bonds as set forth in the preceding paragraphs. The Hospital also is required to meet certain covenants relating to, among other things, debt service coverage.

The Series 1994 Bonds consist of \$5,160,000 outstanding serial bonds which mature in increasing amounts from \$930,000 on November 15, 1999 to \$1,150,000 on November 15, 2004; and \$3,885,000 term bonds due November 15, 2007. Early redemption privileges are available.

Principal payments on the Series 1999, 1995 and 1994 Bonds due in each of the five years subsequent to December 31, 1999 are as follows: 2000 - \$2,065,000; 2001 - \$2,210,000; 2002 - \$2,320,000; 2003 - \$2,435,000; and 2004 - \$2,580,000.

(7) Employee Benefit Plans

Substantially all of the Hospital's employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer, public employee retirement system. Employer and employee required contributions to PERS are established by the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Required contributions to PERS are used to fund retirement and disability benefits, annual cost-of-living adjustments, death benefits to plan members and beneficiaries, and health care programs. Total required employer contributions made were \$5,383,000 in 1999 and \$5,198,000 in 1998 or 13.55% of covered payroll. Employee contributions were \$3,398,000 in 1999 and \$3,270,000 in 1998, or 8.5% of covered payroll. Approximately 95.8% of the contributions as a percentage of covered payroll were used to fund pension obligations; the remaining amounts were used to fund health care programs for retired members.

The Hospital's payroll for employees covered by PERS for the years ended December 31, 1999 and 1998, was approximately \$39,979,000 and \$38,468,000, respectively. The Hospital's total payroll was approximately \$42,809,000 in 1999 and \$41,077,000 in 1998.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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Notes to Consolidated Financial Statements

December 31, 1999 and 1998

Employees may retire at or after age 60 with five years of credited service. Participants in PERS are entitled to a retirement benefit, payable monthly for life, equal to 2.1% of their final salary for each year of credited service; final average salary is defined as the employee's average salary over the highest three years of credited service. Benefits fully vest upon reaching five years of credited service. Vested employees may retire at any age with 30 years of service, at age 60 with a minimum of five years of credited service, and at age 55 with a minimum of 25 years of service. Those individuals retiring with less than 30 years of service or earlier than age 65 receive reduced retirement benefits. PERS also provides death and disability benefits. Benefits are established by the Ohio Revised Code.

The Hospital is current in the payment of its required pension fund contributions.

In addition to the pension benefits described above, the Hospital provides postretirement health care coverage to members as specified under the PERS guidelines. The Ohio Revised Code provides statutory authority for employer contributions.

PERS does not make separate measurements of assets and accrued liabilities for individual employers. At December 31, 1999, the most recent data available, the unaudited estimated net assets available for future postretirement health care benefits, in billions of dollars, was \$9,870.

The benefits are advance-financed on an actuarially determined basis. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. As of December 31, 1999, there are 118,062 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 4.2% in 1999 and 1998 was actually made to fund postretirement health care benefits.

(8) Medical Malpractice Claims

The Hospital is self-insured for medical malpractice claims subject to certain limitations. Accordingly, the provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Potential losses from asserted and unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of the claim or incident and relevant trend factors.

The Hospital established an irrevocable trust fund, which is included in assets limited as to use or restricted, for the payment of medical malpractice claims settlements. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.



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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

The Board of Trustees
Robinson Memorial Portage County Hospital
and
The Honorable Jim Petro, Auditor of State:

We have audited the consolidated financial statements of Robinson Memorial Portage County Hospital and subsidiaries (Hospital) as of and for the year ended December 31, 1999, and have issued our report thereon dated March 10, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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 do 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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 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 consolidated 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 for the information of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 10, 2000



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a member of KPMG International, a Swiss association



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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
PORTAGE 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.

By Susan Babbitt

Date: JUNE 27, 2000