

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)



STATE OF OHIO
OFFICE OF THE AUDITOR

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We have reviewed the Independent Auditor's Report of the Robinson Memorial Portage County Hospital, Portage County, prepared by KPMG LLP, for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

June 6, 2001

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**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
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One Cleveland Center
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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), a component unit of Portage County, as of December 31, 2000 and 1999, 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 auditing standards generally accepted in the United States of America and *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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2000 and 1999, and the results of their operations, changes in fund balance, 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 13, 2001, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This 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.

KPMG LLP

March 13, 2001

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and cash equivalents	\$ 5,684,276	5,360,937
Assets limited as to use – required for current liabilities (notest 4 and 8)	543,759	539,960
Patient accounts receivable, less allowance for estimated uncollectibles of \$2,832,886 in 2000 and \$2,221,000 in 1999	16,660,189	15,702,754
Supplies and other current assets	<u>3,147,167</u>	<u>3,092,582</u>
Total current assets	26,035,391	24,696,233
Noncurrent assets limited as to use or restricted (notes 4 and 8)	68,229,762	63,835,916
Property and equipment, net (note 5)	53,360,210	50,488,167
Other assets	<u>2,750,880</u>	<u>2,729,612</u>
Total assets	<u>\$ 150,376,243</u>	<u>141,749,928</u>
Liabilities and Fund Balance		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 2,481,300	2,334,893
Accounts payable	4,318,244	3,332,451
Accrued employee compensation	1,327,046	828,934
Accrued employee compensated absences	2,177,548	2,056,788
Accrued expenses	2,442,468	1,832,630
Estimated third-party payor settlements	<u>714,202</u>	<u>1,269,642</u>
Total current liabilities	13,460,808	11,655,338
Long-term debt (note 6)	39,189,517	41,504,383
Self-insurance and other liabilities (note 8)	<u>2,831,357</u>	<u>3,003,812</u>
Total liabilities	55,481,682	56,163,533
Commitments and contingencies (notes 3, 7 and 8)		
Fund balance:		
Unrestricted	93,292,110	84,136,858
Restricted	<u>1,602,451</u>	<u>1,449,537</u>
Total fund balance	<u>94,894,561</u>	<u>85,586,395</u>
Total liabilities and fund balance	<u>\$ 150,376,243</u>	<u>141,749,928</u>

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended December 31, 2000 and 1999

	2000	1999
Revenue:		
Net patient service revenue (notes 2 and 3)	\$ 106,597,485	99,428,871
Other	4,162,531	3,618,118
Total revenue	110,760,016	103,046,989
Expenses:		
Salaries and wages	45,081,954	42,808,817
Employee benefits (note 7)	11,024,375	10,498,370
Supplies and other expenses	22,859,310	20,614,143
Professional services	7,359,731	6,926,371
Utilities	1,772,851	1,671,837
Pharmaceutical	4,308,846	3,792,075
Depreciation and amortization	6,006,397	5,650,644
Interest	2,394,850	1,484,514
Provision for bad debts	7,718,056	6,854,116
Total expenses	108,526,370	100,300,887
Operating income	2,233,646	2,746,102
Nonoperating gains – investment and other income, net	3,898,072	2,438,811
Excess of revenue and gains over expenses	6,131,718	5,184,913
Change in net unrealized gains and losses on other than trading securities	2,861,989	(1,393,987)
Amounts released from restrictions	161,545	1,534,726
Increase in unrestricted fund balance	\$ 9,155,252	5,325,652

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, 2000 and 1999

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</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	<u>1,534,726</u>	<u>(1,534,726)</u>	<u>—</u>
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	84,136,858	1,449,537	85,586,395
Excess of revenue and gains over expenses	6,131,718	—	6,131,718
Interest income	—	10,188	10,188
Gifts, grants, and bequests	—	304,271	304,271
Change in net unrealized gains and losses on other than trading securities	2,861,989	—	2,861,989
Amounts released from restrictions	<u>161,545</u>	<u>(161,545)</u>	<u>—</u>
Increase in fund balance	<u>9,155,252</u>	<u>152,914</u>	<u>9,308,166</u>
Fund balance at December 31, 2000	<u>\$ 93,292,110</u>	<u>1,602,451</u>	<u>94,894,561</u>

See accompanying notes to consolidated financial statements.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Increase in fund balance	\$ 9,308,166	4,703,901
Adjustments to reconcile excess of revenue and gains over expenses to net cash provided by operating activities:		
Depreciation and amortization	6,006,397	5,650,644
Provision for bad debts	7,718,056	6,854,116
Change in net unrealized gains and losses on other than trading securities	(2,861,989)	1,393,987
Restricted gifts, grants and bequests, and income	(314,459)	(912,975)
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,675,491)	(6,009,102)
Supplies and other current assets	(54,585)	(311,898)
Other assets	(21,268)	405,288
Accounts payable, accrued employee compensation, accrued employee compensated absences, accrued expenses, and estimated third-party settlements	1,659,063	(817,083)
Self-insurance and other liabilities	(172,455)	212,144
Net cash provided by operating activities	12,591,435	11,169,022
Cash flows from investing activities –		
Increase in assets limited as to use or restricted	(1,535,656)	(20,172,363)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	—	21,211,538
Deferred bond issuance costs	—	(594,726)
Principal payments on long-term debt, net	(2,168,459)	(1,669,309)
Purchases of property and equipment, net	(8,878,440)	(11,669,821)
Restricted gifts, grants and bequests, and income	314,459	912,975
Net cash provided by (used in) capital and related financing activities	(10,732,440)	8,190,657
Net increase (decrease) in cash and cash equivalents	323,339	(812,684)
Cash and cash equivalents at beginning of year	5,360,937	6,173,621
Cash and cash equivalents at end of year	\$ 5,684,276	5,360,937
Supplemental disclosure of cash flow information – cash paid for interest	\$ 2,533,789	1,283,267

See accompanying notes to consolidated financial statements.

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

December 31, 2000 and 1999

(1) Summary of Significant Accounting Policies

(a) Reporting Entity and Principles of Consolidation

Robinson Memorial Portage County Hospital (Hospital), a component unit of Portage County, is organized as a county hospital under provisions 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 or controlled by the Hospital (Portage Physician Hospital Organization) are recorded on the equity method and are included in the balance sheet in other assets. 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.

(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, 2000 and 1999

(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, with the exception of those cash equivalents whose use is limited.

(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 reimbursement 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 and approximated \$886,000 and \$417,000 for the years ended December 31, 2000 and 1999, respectively. 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
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Notes to Consolidated Financial Statements

December 31, 2000 and 1999

(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 and patient accounts receivable.

The Hospital invests its cash and cash equivalents in highly rated financial instruments including insured deposits, uninsured deposits, U.S. Treasury obligations, State Treasury Asset Reserve Funds of Ohio (STAR Ohio) and equity securities. With the exception of U.S. Treasury obligations, there is no significant concentration in one investment or group of similar investments.

The Hospital's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Revenues from the Medicare program accounted for approximately 26% and 29% of the Hospital's net patient service revenue for the years ended December 31, 2000 and 1999, respectively. Medicaid revenue accounted for approximately 6% and 5% for the years ended December 31, 2000 and 1999, respectively and Blue Cross revenue accounted for 20% in both years. Excluding Medicare and Blue Cross, no other payor source represents more than 10% of the Hospital's patient accounts receivable. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

(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.

(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.

(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.

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

December 31, 2000 and 1999

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>2000</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying value</u>
Insured deposits	\$ 226,353	—	226,353
Uninsured deposits	—	441,937	441,937
U.S. Treasury obligations	70,644,343	—	70,644,343
Equity securities	<u>2,262,908</u>	<u>—</u>	<u>2,262,908</u>
Subtotal	<u>\$ 73,133,604</u>	<u>441,937</u>	73,575,541
STAR Ohio			878,367
Petty cash			<u>3,889</u>
Total cash and investments			<u>\$ 74,457,797</u>

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

December 31, 2000 and 1999

<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>

(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 \$1,235,000 and \$1,206,000 at December 31, 2000 and 1999, 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 over a period of five to twenty-five years.

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*.

(t) Reclassifications

Certain amounts included in the 1999 financial statements have been reclassified to conform with the 2000 presentation.

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

December 31, 2000 and 1999

(2) Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2000 and 1999, the estimated charges forgone of providing charity care services and supplies were \$3,200,000 and \$2,800,000, respectively.

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from 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, were paid based upon a reimbursement methodology or a percentage of reasonable cost through July 31, 2000. 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.

Effective August 1, 2000, the Medicare program began paying hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the Hospital is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient ambulatory surgery, laboratory, and radiology are paid based upon prospectively determined fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

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 1997 and the Medicaid program through 1995. Provisions for estimated reimbursement adjustments have been provided in the accompanying consolidated financial statements.

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 or other legal matters which may have a material adverse effect on the Hospital's financial position or results of operations.

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

December 31, 2000 and 1999

(4) Assets Limited as to Use or Restricted

As of December 31, 2000 and 1999, assets limited as to use or restricted, at fair value, have been set aside in the following funds:

	2000	1999
Board of trustees:		
Funded depreciation and other	\$ 38,543,590	31,104,446
Self-insurance trust	5,374,801	5,187,936
Excess fund	16,587,958	14,922,904
Funds held by trustee under bond indenture – bond funds	6,675,627	11,893,007
Restricted by donor	1,591,545	1,267,583
Total assets limited as to use or restricted	68,773,521	64,375,876
Less assets limited as to use or restricted – required for current liabilities	543,759	539,960
	\$ 68,229,762	63,835,916

Assets limited as to use or restricted, including cash and cash equivalents, are invested in STAR Ohio, money market accounts, common stocks, and certificates of deposit and are stated at fair value.

(5) Property and Equipment

Property and equipment consist of the following at December 31, 2000 and 1999:

	2000	1999
Land and land improvements	\$ 3,234,993	3,108,966
Buildings	46,756,965	34,709,243
Fixed and movable equipment	63,390,785	58,335,454
	113,382,743	96,153,663
Less accumulated depreciation	60,022,533	54,443,759
	53,360,210	41,709,904
Construction in progress	—	8,778,263
	\$ 53,360,210	50,488,167

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

December 31, 2000 and 1999

(6) Long-term Debt

A summary of long-term debt at December 31, 2000 and 1999, is as follows:

	2000	1999
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$238,838 and \$251,577 at December 31, 2000 and 1999, respectively; bearing interest at rates ranging from 4.0% to 5.25% and maturing in varying amounts through 2019	\$ 20,026,162	20,598,423
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of \$205,833 and \$219,867 at December 31, 2000 and 1999, respectively; bearing interest at rates ranging from 4.5% to 6.5% and maturing in varying amounts through 2015	12,879,167	13,415,133
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85% to 6.5% and maturing in varying amounts through 2007	8,115,000	9,045,000
Notes and other long-term debt	650,488	780,720
	41,670,817	43,839,276
Less current portion	2,481,300	2,334,893
	\$ 39,189,517	41,504,383

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 Bank One, NA (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 \$7,190,000 outstanding Serial bonds which mature in increasing amounts from \$660,000 on November 15, 2001 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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Notes to Consolidated Financial Statements

December 31, 2000 and 1999

The Series 1995 Bonds consist of \$3,205,000 outstanding serial bonds which mature in increasing amounts from \$575,000 on November 15, 2001 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 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 \$4,230,000 outstanding serial bonds which mature in increasing amounts from \$975,000 on November 15, 2001 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, 2000 are as follows: 2001 – \$2,210,000; 2002 – \$2,320,000; 2003 – \$2,435,000; 2004 – \$2,580,000; and 2005 – \$2,730,000.

At December 31, 2000, the carrying value of the Bonds approximate fair value.

(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 \$4,376,000 in 2000 and \$5,383,000 in 1999. Employer contributions represented 13.55% of covered payroll in 1999 and for the period January through June 2000, but were temporarily reduced to 8.13% from July through December of 2000. Employee contributions were \$3,570,000 in 2000 and \$3,398,000 in 1999, or 8.5% of covered payroll. Approximately 95.7% 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, 2000 and 1999, was approximately \$41,996,000 and \$39,979,000, respectively. The Hospital's total payroll was approximately \$45,082,000 in 2000 and \$42,809,000 in 1999.

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

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.

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 accrued liability (determined through an actuarial valuation), the net assets available for benefits, and the unfunded actuarial accrued liability based on the actuarial cost method for postretirement health care benefits, in millions of dollars, is presented below:

Accrued postretirement health care liability	\$ 12,473.6
Net assets available for benefits	<u>10,805.5</u>
Unfunded actuarial accrued liability	<u>\$ 1,668.1</u>

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, 2000, there are 401,339 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 4.3% in both 2000 and 1999 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, 2000, and have issued our report thereon dated March 13, 2001. 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 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 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. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Hospital in a separate letter dated March 13, 2001.

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

KPMG LLP

March 13, 2001



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OFFICE OF THE AUDITOR

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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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 14, 2001**