

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2010**



Dave Yost • Auditor of State

Board of Trustees
Robinson Memorial Portage County Hospital and Affiliates
6847 N. Chestnut Street
Ravenna, Ohio 44266-1204

We have reviewed the *Independent Auditor's Report* of the Robinson Memorial Portage County Hospital and Affiliates, prepared by Plante & Moran, PLLC, for the audit period January 1, 2010 through December 31, 2010. 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 and Affiliates is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 27, 2011

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Robinson Memorial Portage County Hospital and Affiliates

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Independent Auditor's Report

To the Board of Trustees
Robinson Memorial Portage County
Hospital and Affiliates

We have audited the accompanying financial statements of Robinson Memorial Portage County Hospital and Affiliates (the "Hospital"), a component unit of Portage County, as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Robinson Memorial Portage County Hospital and Affiliates as of December 31, 2010 and 2009 and the changes in their financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Robinson Memorial Portage County
Hospital and Affiliates

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2011 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

April 27, 2011

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital and Affiliates' (the "Hospital") financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2010, 2009, and 2008. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also read the basic financial statements and the accompanying notes to enhance their understanding of the Hospital's financial performance. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the management's discussion and analysis.

Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements. These statements are organized to present Robinson Memorial Portage County Hospital and Affiliates as an entire operating entity.

Robinson Memorial Portage County Hospital and Affiliates, 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.

While the County is empowered to appropriate money from its General Fund from certain state and federal monies it receives and, with the approval of the electorate, levy property 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 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 healthcare services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

The financial statements include the accounts and transactions of the Hospital, Robinson Memorial Hospital Foundation, Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. Investments in affiliates, which are not majority owned or controlled by the Hospital (Portage Physician Hospital Organization), are recorded on the equity method of accounting and are included in the balance sheet in other assets. All significant intercompany accounts and transactions have been eliminated in the financial statements.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007 which was renewed in 2010 and expires December 31, 2012 to provide improved quality of and access to health care in the communities served by the Hospital and Summa, expand healthcare services offered in Portage County and surrounding communities, and deliver healthcare services more efficiently and cost effectively. The affiliation agreement includes an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2010 and 2009, the Hospital incurred costs related to the affiliation fee of \$50,000 and \$0, respectively.

The affiliation agreement also provides for a nonprofit joint operating company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital facilities and develop and manage joint ventures between the two organizations. Each party has a 50 percent ownership in Summa Robinson Health Ventures. The Hospital will maintain its status as a county-owned hospital pursuant to the provisions of the Ohio Revised Code Chapter 339 and will continue to be governed by a board of trustees appointed pursuant to Chapter 339.02 of the Ohio Revised Code.

The balance sheet, statement of revenue, expenses, and changes in net assets, and statement of cash flows provide an indication of the Hospital's financial results. The balance sheet includes the Hospital's assets and liabilities, using the accrual basis of accounting. The statement of revenue, expenses, and changes in net assets reports the revenue earned and expenses incurred during the time periods indicated. The statement of cash flows reports the cash provided by and used in operating activities, as well as other cash sources and uses such as investment income and cash payments for repayment of bonds and capital additions.

Financial Analysis of the Hospital

Robinson Memorial Portage County Hospital's total net assets increased by \$5.4 million to \$142.6 million at December 31, 2010 from \$137.2 million at December 31, 2009.

In 2010, total assets increased by \$10.1 million over 2009 levels. In 2009, total assets decreased \$46.7 million over 2008 levels.

In 2010, other current assets increased \$9.2 million mainly due to increases in securities lending of \$8.9 million. The Hospital engages in securities lending activities whereby certain securities are loaned to other institutions. The Hospital receives as collateral the market value of the securities, plus 2 percent, and is obligated to return the collateral upon return of the borrowed securities. The value of these securities is included in both current assets and current liabilities at the fair value of the collateral of \$34.2 million in 2010, \$25.3 million in 2009, and \$58.2 million in 2008.

In 2010, total liabilities increased \$4.7 million, current liabilities increased \$8.6 million, mainly due to securities lending programs, and long-term debt decreased \$4.1 million due to principal payments made on Hospital debt.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

In 2009, total liabilities decreased \$41.5 million, current liabilities decreased \$36.5 million, mainly due to securities lending programs, and long-term debt decreased \$4.3 million due to principal payments made on Hospital debt.

Table I provides a summary of the Hospital's total net assets at December 31, 2010 compared to December 31, 2009 and 2008.

Table I
Assets, Liabilities, and Net Assets
(amounts in thousands)

| | 2010 | 2009 | 2008 |
|--|--------------------------|--------------------------|--------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 8,140 | \$ 8,593 | \$ 5,379 |
| Net accounts receivable | 22,129 | 18,502 | 20,520 |
| Other current assets | 35,993 | 26,688 | 63,181 |
| Assets limited as to use | 83,046 | 103,613 | 125,410 |
| Other assets | 2,459 | 2,712 | 3,443 |
| Capital assets | <u>122,018</u> | <u>103,567</u> | <u>92,467</u> |
| Total assets | <u>\$ 273,785</u> | <u>\$ 263,675</u> | <u>\$ 310,400</u> |
| Liabilities | | | |
| Current liabilities | \$ 51,887 | \$ 43,326 | \$ 79,813 |
| Long-term debt | 76,839 | 80,961 | 85,216 |
| Other long-term liabilities | <u>2,424</u> | <u>2,212</u> | <u>3,018</u> |
| Total liabilities | 131,150 | 126,499 | 168,047 |
| Net Assets | | | |
| Unrestricted | 83,694 | 90,030 | 100,382 |
| Invested in capital assets - Net of related debt | 55,328 | 43,933 | 38,715 |
| Restricted | <u>3,613</u> | <u>3,213</u> | <u>3,256</u> |
| Total net assets | <u>142,635</u> | <u>137,176</u> | <u>142,353</u> |
| Total liabilities and net assets | <u>\$ 273,785</u> | <u>\$ 263,675</u> | <u>\$ 310,400</u> |

In 2010, the Hospital's cash and investment position decreased \$21.0 million from 2009 and in 2009 decreased \$18.7 million from 2008.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Cash and Investment Accounts (amounts in thousands)

| | 2010 | 2009 | 2008 |
|--|------------------|-------------------|-------------------|
| Operating cash | \$ 8,140 | \$ 8,593 | \$ 5,379 |
| Assets limited as to use | 69,361 | 78,261 | 89,698 |
| Bond project fund | 13,685 | 25,352 | 35,712 |
| Trustee bond funds for current liabilities | 785 | 712 | 863 |
| Total cash and investments | <u>\$ 91,971</u> | <u>\$ 112,918</u> | <u>\$ 131,652</u> |

The Hospital maintains sufficient cash balances in operating cash (current assets) to cover approximately 20 days of expenses. All excess cash is transferred to noncurrent assets limited as to use or restricted. The decrease in bond project funds from 2009 to 2010 is due to funding fixed asset additions of \$21.2 million from proceeds of the 2008 revenue bonds, approximately \$11.7 million, with the remainder, approximately \$9.5 million, funded from excess operating funds. The decrease in bond project funds from 2008 to 2009 is due to funding fixed asset additions of \$21.7 million from proceeds of the 2008 revenue bonds, approximately \$10.4 million, with the remainder, approximately \$11.3 million, funded from excess operating funds.

Net cash provided by operating activities was \$12.6 million in 2010 versus \$9.5 million in 2009 and \$13.5 million in 2008.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased by \$3.6 million between December 31, 2009 and 2010 mainly due to price increases, coding backlog, and vacant positions in the billing department. Days in receivables increased by 6.3 days. Patient accounts receivable, net of allowance for uncollectibles, decreased by \$2.0 million between December 31, 2008 and 2009 mainly due to increased cash collections and an increase in allowance for uncollectibles.

Capital Assets

Capital assets increased from \$103.6 million in 2009 to \$122.0 million in 2010. The increase relates to \$30.6 million in net capital additions, offset partially by \$11.8 million in depreciation expense. Capital assets increased from \$92.5 million in 2008 to \$103.6 million in 2009. The increase related to \$30.4 million in net capital additions, offset by \$10.6 million in depreciation expense. See table below for details on additions.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Capital Additions (amounts in thousands)

| | 2010 | 2009 | 2008 |
|--|------------------|------------------|------------------|
| Robinson Health Center at Streetsboro | \$ - | \$ 7,400 | \$ 11,200 |
| Operating Room Suites Expansion/Renovation | 6,600 | 5,100 | - |
| New Telephone System | 700 | 1,900 | - |
| Energy Management Project | 5,800 | - | - |
| Electronic Medical Record/CPOE | 6,300 | - | - |
| Routine Replacement | 11,200 | 16,000 | 11,550 |
| Total | <u>\$ 30,600</u> | <u>\$ 30,400</u> | <u>\$ 22,750</u> |

Debt Administration

The Hospital has agreed to maintain certain bond covenant ratios on a yearly basis. Covenant ratios include days cash on hand, supplemental rate (maximum debt service coverage), historical debt service coverage, and cushion ratios. Ratios are defined in the bond indenture agreements. Management believes that the Hospital is in compliance with all bond covenants.

Ratios

| | 2010 | 2009 | 2008 | Covenant |
|----------------------------------|--------|--------|--------|----------|
| Days cash on hand | 162.10 | 184.60 | 218.00 | 100.00 |
| Maximum debt service coverage | 2.63 | 1.86 | 2.44 | 1.50 |
| Historical debt service coverage | 3.90 | 2.01 | 4.63 | 1.35 |
| Cushion ratio | 9.02 | 10.36 | 11.37 | 1.50 |

The declines in maximum debt service coverage and cushion ratio in 2009 are due to new bonds issued in 2008 and the negative operating results incurred in 2009.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2010 compared to 2009 and 2008.

Table 2
Revenue and Expenses (amounts in thousands)

| | 2010 | 2009 | 2008 |
|---|--------------------------|--------------------------|--------------------------|
| Operating Revenue | \$ 151,126 | \$ 144,111 | \$ 146,770 |
| Operating Expense | <u>146,272</u> | <u>147,238</u> | <u>141,175</u> |
| Operating Income | 4,854 | (3,127) | 5,595 |
| Nonoperating Revenue (Expense) | <u>(266)</u> | <u>(2,365)</u> | <u>4,066</u> |
| Excess of Revenues Over Expenses | 4,588 | (5,492) | 9,661 |
| Gifts, Grants, Bequests, and Other | <u>871</u> | <u>315</u> | <u>475</u> |
| Increase (Decrease) in Net Assets | 5,459 | (5,177) | 10,136 |
| Net Assets - Beginning of year | <u>137,176</u> | <u>142,353</u> | <u>132,217</u> |
| Net Assets - End of year | <u><u>\$ 142,635</u></u> | <u><u>\$ 137,176</u></u> | <u><u>\$ 142,353</u></u> |

Net Patient Service Revenue

Total operating revenues increased \$7.0 million, or 4.9 percent, in 2010 as compared to 2009, yet decreased \$2.7 million, or 1.8 percent, in 2009 as compared to 2008.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Inpatient Business Activity

Total discharges in 2010 increased by 513 discharges or 5.8 percent compared to 2009. For 2009, total discharges were 324 or 3.8 percent below 2008 levels. Length of stay (LOS) for Hospital inpatients, primarily step down patients, has also decreased slightly in 2010 as shown below:

| | | Discharges | | |
|------------------|----------|-------------------------------|--------------|--------------|
| | | 2010 | 2009 | 2008 |
| Medical/Surgical | | 5,169 | 5,025 | 5,278 |
| Critical care | | 384 | 346 | 321 |
| Step Down Unit | | 2,283 | 1,818 | 1,889 |
| Obstetrics | | 846 | 943 | 968 |
| | Subtotal | 8,682 | 8,132 | 8,456 |
| Newborn | | 749 | 786 | 769 |
| | Total | <u>9,431</u> | <u>8,918</u> | <u>9,225</u> |
| | | Average Length of Stay (Days) | | |
| | | 2010 | 2009 | 2008 |
| Medical/Surgical | | 3.7 | 3.7 | 5.2 |
| Critical care | | 2.5 | 2.5 | 2.4 |
| Step Down Unit | | 3.9 | 4.6 | 4.4 |
| Obstetrics | | 2.2 | 2.1 | 2.3 |
| Newborn | | 2.0 | 1.9 | 2.1 |

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 4.2 percent (includes 10.0 percent price increase) in 2010 after increasing 6.7 percent in 2009. Outpatient gross revenue accounts for 61.4 percent of patient revenue in 2010.

Areas that recorded the largest increase in revenue during 2010 were the Portage Pediatrics - Streetsboro practice at 44.0 percent, Working Partners Clinic at 34.2 percent, operating rooms at 27.3 percent, and anesthesiology at 25.5 percent.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Deductions from Revenue

Contractual service adjustments were 58.1 percent of gross revenues in 2010 versus 57.5 percent in 2009 and 56.5 percent in 2008. The increased percentages are due to the 10 and 5 percent price increases approved in 2010 and 2009, respectively, by the board of trustees which exceed increased reimbursements from Medicare, Medicaid, and other contracted payors.

Bad debt provision was \$13.9 million in 2010 versus \$12.4 million for 2009 and \$7.3 million for 2008.

Charity care for 2010 was \$16.0 million, a decrease of \$.6 million or 2.5 percent over \$16.6 million in 2009. In 2008, charity care was \$16.5 million. The State of Ohio developed a program in the late 1980s designed to help hospitals address the increasing number of low-income, special-need patients. The program, named the State of Ohio Care Assurance Program, is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of dollars is then redistributed to all Ohio hospitals, with no guarantee that each hospital will receive back its initial assessment. For 2010, the Hospital received \$1.4 million net from the Ohio Care Assurance Program, compared to \$1.3 million in 2009 and \$1.6 million in 2008.

Operating Expenses

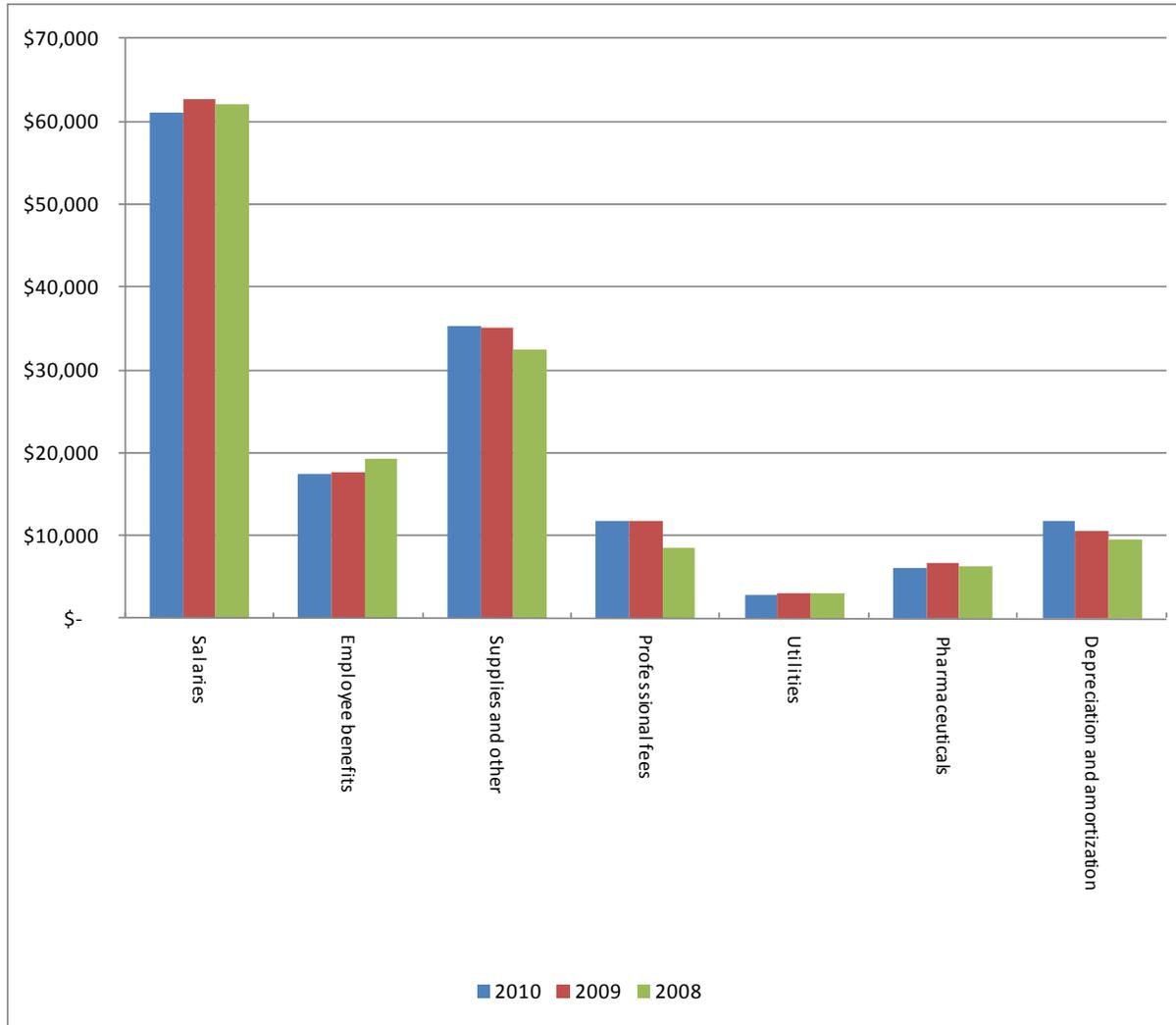
Total operating expenses in 2010 were \$1 million or .7 percent lower than 2009 levels, mainly due to decreases in salaries and wages of \$1.6 million, pharmaceuticals of \$.6 million, offset by an increase in depreciation of \$1.2 million.

In 2009, total operating expenses were \$6.1 million, or 4.3 percent, higher than 2008, due to increases in professional fees of \$3.1 million, supplies and other expenses of \$2.5 million, depreciation of \$1.0 million, and the Ohio Hospital Franchise Fee of \$.8 million.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Operating Expense Comparison (amounts in thousands)



The largest percentage decreases in operating expenses in 2010 over 2009 levels are reflected in salaries and wages (2.6 percent) and pharmaceuticals (9.0 percent) offset by an increase in depreciation (11.7 percent).

The major increases in 2009 over 2008 are in professional fees (35.6 percent), depreciation (10.6 percent), and supplies and other expenses (8.1 percent), offset by a decrease in employee benefits (8.6 percent).

Salaries

Salaries decreased \$1.6 million, or 2.6 percent, in 2010 from 2009 levels, due mainly to wage increases of roughly 3.5 percent, offset by reduction in FTEs of approximately 41. The number of full-time equivalent positions in 2010 was 1,214.9 versus 1,256.1 in 2009 and 1,281.8 in 2008.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Supply and Other Expenses

Supply and other expenses remained flat in 2010 as compared to 2009 and include approximately \$1.3 million State of Ohio Hospital Franchise Fees. Supply and other expenses increased \$2.6 million, or 8.1 percent, in 2009 over the 2008 level.

Pharmaceuticals

Pharmaceuticals decreased 9.0 percent in 2010 over 2009 levels, due to less need for dispensing antibiotics and anticoagulants, a 23 percent decrease from 2009 levels. For 2009, pharmaceutical costs increased by 6.3 percent over 2008 levels due to increased volumes and higher priced chemotherapy drugs.

Utilities and Other

Utilities remained flat in 2010 as compared to 2009, even with the opening of the expanded operating room suites. In 2009, utilities were also flat as compared to 2008, even with the opening of the Robinson Professional Center.

Depreciation and Amortization

Depreciation and amortization increased 11.7 percent in 2010, as the Hospital opened the expanded operating room suites, upgraded the telephone system, and made various acquisitions of clinical equipment. In 2009, depreciation increased 10.6 percent as the Hospital opened the Robinson Health Center at Streetsboro and acquired various clinical equipment.

Nonoperating Revenues and Expenses (in thousands)

| | 2010 | 2009 | 2008 |
|---|-----------------|-------------------|-----------------|
| Investment and other income - Net | \$ 2,888 | \$ 4,426 | \$ 3,057 |
| Interest expense | (3,012) | (3,467) | (2,597) |
| Change in net unrealized gains and losses | (142) | (3,324) | 3,606 |
| Total | <u>\$ (266)</u> | <u>\$ (2,365)</u> | <u>\$ 4,066</u> |

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Investment and Other Income

Investment and other income decreased \$1.5 million in 2010 compared to 2009 due to the use of investments to fund certain capital asset additions. Investment and other income increased \$1.4 million from 2008 to 2009 due to increases in interest rates on investments.

Interest expense decreased \$.5 million in 2010 due primarily to decreased variable interest rates associated with the 2005 and 2008 bonds and the reduction in debt outstanding.

Unrealized gains on investments increased \$3.2 million in 2010 due primarily to favorable changes in bond investment values caused by decreased interest rates and by increases in equity values. Unrealized gains on investments decreased \$6.9 million in 2009 due primarily to unfavorable changes in bond investment values caused by increased interest rates.

Economic Factors and Next Year's Budget

The board of trustees approved the 2011 operating budget at their October 2010 meeting. This budget was developed after a review of key volume indicators and trends seen at other hospitals in northeast Ohio as well as trends for the Hospital. The budget incorporated the Hospital's current strategic business plan, long-range information systems plan, as well as Portage County economic factors such as estimated population growth and unemployment rates.

The budget for the Hospital provides for operating income of \$2.1 million, and includes \$1.1 million in State of Ohio Hospital Franchise Fees. The 2011 operating budget projects \$5.2 million in income after other revenue, expenses, gains, and losses.

Contacting the Hospital's Management

This financial report is intended to provide the users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, please feel free to contact me.

Carl Ebner

Vice President, Finance

Robinson Memorial Portage County Hospital and Affiliates

Balance Sheet (amounts in thousands)

| | December 31 | |
|--|-------------------|-------------------|
| | 2010 | 2009 |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | \$ 8,140 | \$ 8,593 |
| Assets limited as to use - Required for current liabilities (Notes 2 and 5) | 785 | 712 |
| Patient accounts receivable - Less allowance for uncollectible accounts of approximately \$8,008,000 in 2010 and \$6,590,000 in 2009 | 22,129 | 18,502 |
| Other current assets | 35,208 | 25,976 |
| Total current assets | 66,262 | 53,783 |
| Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5) | 83,046 | 103,613 |
| Capital Assets - Net (Note 6) | 122,018 | 103,567 |
| Other Assets | 2,459 | 2,712 |
| Total assets | <u>\$ 273,785</u> | <u>\$ 263,675</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current portion of long-term debt (Note 7) | \$ 4,210 | \$ 4,025 |
| Accounts payable | 8,955 | 6,146 |
| Accrued employee compensation | 1,891 | 2,169 |
| Compensated absences (Note 11) | 3,847 | 3,154 |
| Accrued expenses | 3,080 | 3,775 |
| Other current liabilities | 29,904 | 24,057 |
| Total current liabilities | 51,887 | 43,326 |
| Long-term Debt - Net of current portion (Note 7) | 76,839 | 80,961 |
| Self-insurance and Other Liabilities (Note 10) | 2,424 | 2,212 |
| Total liabilities | 131,150 | 126,499 |
| Net Assets | | |
| Invested capital assets - Net of related debt | 55,328 | 43,933 |
| Restricted by donor for specific uses | 3,613 | 3,213 |
| Unrestricted | 83,694 | 90,030 |
| Total net assets | 142,635 | 137,176 |
| Total liabilities and net assets | <u>\$ 273,785</u> | <u>\$ 263,675</u> |

Robinson Memorial Portage County Hospital and Affiliates

Statement of Revenue, Expenses, and Changes in Net Assets (amounts in thousands)

| | Year Ended December 31 | |
|--|------------------------|-------------------|
| | 2010 | 2009 |
| Operating Revenue | | |
| Net patient service revenue | \$ 146,194 | \$ 139,352 |
| Other | 4,932 | 4,759 |
| Total operating revenue | 151,126 | 144,111 |
| Operating Expenses | | |
| Salaries and wages | 61,019 | 62,667 |
| Employee benefits | 17,374 | 17,626 |
| Supplies and other expenses | 35,256 | 35,084 |
| Professional services | 11,863 | 11,710 |
| Utilities | 2,923 | 2,963 |
| Pharmaceutical | 6,004 | 6,597 |
| Depreciation and amortization | 11,833 | 10,591 |
| Total operating expenses | 146,272 | 147,238 |
| Operating Income (Loss) | 4,854 | (3,127) |
| Nonoperating Revenue (Expenses) | | |
| Investment and other income - Net | 2,888 | 4,426 |
| Interest expense | (3,012) | (3,467) |
| Changes in net unrealized gains and losses | (142) | (3,324) |
| Total nonoperating expenses | (266) | (2,365) |
| Excess of Revenue Over (Under) Expenses | 4,588 | (5,492) |
| Gifts, Grants, Bequests, and Other | 871 | 315 |
| Increase (Decrease) in Net Assets | 5,459 | (5,177) |
| Net Assets - Beginning of year | 137,176 | 142,353 |
| Net Assets - End of year | <u>\$ 142,635</u> | <u>\$ 137,176</u> |

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (amounts in thousands)

| | Year Ended December 31 | |
|---|------------------------|-----------------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities | | |
| Cash received from patients | \$ 140,123 | \$ 142,808 |
| Other cash receipts | 4,932 | 4,758 |
| Cash payments to suppliers | (54,518) | (56,261) |
| Cash payments to employees | (77,979) | (81,820) |
| Net cash provided by operating activities | 12,558 | 9,485 |
| Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received | 871 | 315 |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from issuance of long-term debt | 7,710 | - |
| Purchase of property | (24,050) | (21,666) |
| Principal paid on debt | (11,647) | (4,478) |
| Interest paid on debt | (3,061) | (3,577) |
| Net cash used in capital and related financing activities | (31,048) | (29,721) |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (112,529) | (110,181) |
| Sale of investments | 122,108 | 114,876 |
| Investment and other income | 2,888 | 4,426 |
| Changes in assets limited as to use | 4,699 | 14,014 |
| Net cash provided by investing activities | 17,166 | 23,135 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (453) | 3,214 |
| Cash and Cash Equivalents - Beginning of year | 8,593 | 5,379 |
| Cash and Cash Equivalents - End of year | \$ 8,140 | \$ 8,593 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | |
| Operating income (loss) | \$ 4,854 | \$ (3,127) |
| Adjustment to reconcile operating income (loss) to net cash from operating activities: | | |
| Depreciation and amortization | 11,833 | 10,591 |
| Provision for bad debts and other charges | 13,883 | 12,442 |
| Changes in assets and liabilities: | | |
| Patient accounts receivable | (17,509) | (10,424) |
| Other current assets | (8,328) | 36,342 |
| Other assets | 142 | 731 |
| Accounts payable | 2,810 | (143) |
| Other current liabilities | 4,942 | (34,294) |
| Compensated absences and accrued employee compensation | 414 | (1,527) |
| Other liabilities and accrued expenses | (483) | (1,106) |
| Net cash provided by operating activities | \$ 12,558 | \$ 9,485 |

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies

Reporting Entity - Robinson Memorial Portage County Hospital and Affiliates (the "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 healthcare services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

The accompanying financial statements include the accounts and transactions of the Hospital, Robinson Memorial Hospital Foundation (the "Foundation"), Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. The Hospital exercises significant influence over these entities, considering them to be component units of the Hospital. These entities are presented in the Hospital's financial statements as blended components units. Investments in affiliates 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, which amounted to \$108 and \$58 at December 31, 2010 and 2009, respectively.

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007 which was renewed in 2010 and expires December 31, 2012 to provide improved quality of, and access to, health care in the communities served by the Hospital and Summa, expand healthcare services offered in Portage County and surrounding communities, and deliver healthcare services more efficiently and cost effectively. The affiliation agreement includes an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2010 and 2009, the Hospital incurred costs related to the affiliation fee of \$50,000 and \$0, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

The affiliation agreement also provides for a nonprofit joint operating company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital facilities and develop and manage joint ventures between the two organizations. Each party has a 50 percent ownership in Summa Robinson Health Ventures, which will be recorded under the equity method. As of December 31, 2010 and 2009, Summa Robinson Health Ventures had no assets or activity. The Hospital will maintain its status as a county-owned hospital pursuant to the provisions of the Ohio Revised Code Chapter 339 and will continue to be governed by a board of trustees appointed pursuant to Chapter 339.02 of the Ohio Revised Code.

The Hospital entered into a 10-year affiliation agreement with Akron General Medical Center (AGMC) which expires June 30, 2014, the purpose of which is to jointly construct, equip, and operate a radiation therapy center at the Hospital which does business under the name of Robinson Radiation Oncology Center (RROC). Under this affiliation agreement, both parties agree to equally share the cost of leasehold improvements, leasing of equipment, and contribution of working capital. In addition, each party has a 50 percent representation in a management committee, which will oversee operations of RROC, and have agreed to distribute equally the excess revenue over expenses derived from RROC. RROC became operational January 1, 2005 and is accounted for on the equity method. At December 31, 2010 and 2009, the Hospital has recorded an asset of \$408 and \$809, respectively, equal to the investment in RROC.

All significant intercompany accounts and transactions have been eliminated in the financial statements.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. The Hospital has elected not to apply the provisions of all pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting - The operations of the Hospital are accounted for as an Enterprise Fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenue is recognized in the period in which it is earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Hospital are included in the balance sheet. The principal revenue of the Hospital is revenue received from insurers and/or patients for direct patient care. Operating expenses for the Hospital include cost of direct patient care, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

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.

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 and excess (stop-loss) 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.

Derivative Financial Instruments - The Governmental Accounting Standards Board (GASB) issued Statement No. 53, *Accounting for Derivative Instruments*, effective for fiscal years ended December 31, 2010. The Hospital early adopted the provisions of GASB No. 53. This standard requires that all derivatives be recorded on the balance sheet at their respective fair value. Changes in fair value are recognized either in net assets or current assets and current liabilities, depending on the nature of the underlying exposure being hedged and whether the derivatives are effective or ineffective. The Hospital's derivative instruments are deemed effective and any change in fair value is reflected in other current assets and other current liabilities. The impact of the change in fair value was an increase in other current assets and other current liabilities of \$1,542.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets - The Hospital's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Hospital's principal activity. Nonexchange revenue, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue - Net patient service revenue is reported at 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.

Restricted Resources - When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use the restricted resources before unrestricted resources.

Classification of Net Assets - Net assets of the Hospital are classified in three components: (1) net assets invested in capital assets - net of related debt, which consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets, (2) restricted expendable net assets, which are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures, and (3) unrestricted net assets, which are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Investment Income - Investment income of the self-insurance trust accounts and certain bond accounts, included in assets limited as to use, is recorded as other revenue and approximated \$176 and \$362 for the years ended December 31, 2010 and 2009, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments, which are restricted by the donor, are added to (deducted from) restricted amounts.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Donations Other than Cash - Donated supplies, property, equipment, and investments are recorded at fair market value at the date of donation, which is then treated as cost.

Noncurrent 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.

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, and State Treasury Asset Reserve Funds of Ohio (STAR Ohio). 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 consist of amounts due from governmental programs, commercial insurance companies, private-pay patients, and other group insurance programs. Net patient service revenues from the Medicare program, including Medicare HMOs, accounted for approximately 34 percent of the Hospital's net patient service revenue for the years ended December 31, 2010 and 2009. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 8 percent and 7 percent for the years ended December 31, 2010 and 2009, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 14 percent for the years ended December 31, 2010 and 2009. Excluding Medicare and Medical Mutual of Ohio, no other payor source represents more than 10 percent of the Hospital's net patient revenues. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Capital Assets - Capital assets are stated at cost. Capital assets are defined as assets with initial individual costs greater than \$1,000. 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. Useful lives are as follows:

| | |
|--------------------|------------|
| Improvements | 10 years |
| Buildings | 22 years |
| Fixed equipment | 3-10 years |
| Capitalized leases | 5 years |
| Major moveable | 5-15 years |

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

Pledges - Unconditional pledges are recorded at fair market value as revenue in the year made. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges are included in other current assets on the balance sheet.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|--------------------------------|---------------|---------------|
| Pledges due: | | |
| In less than one year | \$ 5 | \$ 21 |
| In one to five years | 200 | 316 |
| Total | 205 | 337 |
| Allowance for doubtful pledges | - | (7) |
| Net | <u>\$ 205</u> | <u>\$ 330</u> |

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 27, 2011, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits

All monies are deposited to the Hospital's banks or trust companies designated by the board of trustees. Funds not needed for immediate expenditure may be deposited in interest-bearing or noninterest-bearing accounts or U.S. government obligations. Banks or trust companies shall furnish security for all such deposits, whether interest-bearing or noninterest-bearing, except that no such security is required for U.S. government obligations.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

Custodial risk is the risk that, in the event of bank failure, the Hospital's deposits might not be recovered. The Hospital's bank deposits, in thousands, at December 31, 2010 and 2009 totaled \$1,914 and \$2,336, respectively, and were subject to the following categories of custodial risk (amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|--|-----------------|-----------------|
| Collateralized with securities held by the pledging institution's trust department | \$ 1,209 | \$ 1,649 |
| Amount insured | <u>705</u> | <u>687</u> |
| Total bank balances | <u>\$ 1,914</u> | <u>\$ 2,336</u> |

Investments

As of December 31, 2010 and 2009, the fair value of the Hospital's investments was as follows:

| | <u>2010</u> | <u>2009</u> |
|--|------------------|-------------------|
| Cash and cash equivalents | \$ 6,736 | \$ 2,073 |
| Equities | 2,173 | 2,005 |
| U.S. government obligations | 78,164 | 100,198 |
| Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools) | <u>4,768</u> | <u>6,732</u> |
| Total investments | <u>\$ 91,841</u> | <u>\$ 111,008</u> |

The carrying amounts of the Hospital's deposits and investments at December 31, 2010 and 2009 were as follows:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------|------------------|-------------------|
| Deposits | \$ 130 | \$ 1,910 |
| Investments | <u>91,841</u> | <u>111,008</u> |
| Total deposits and investments | <u>\$ 91,971</u> | <u>\$ 112,918</u> |

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

The difference between bank balances and financial statement carrying amounts represents outstanding checks payable and normal reconciling items.

Interest Rate Risk - The Hospital's investment policies limit the investment portfolio to a weighted average life of seven years or less. All of the Hospital's investments at December 31, 2010 have a weighted average life of less than seven years.

Credit Risk - The majority of the Hospital's investment policies are governed by State of Ohio statutes that authorize the Hospital to invest in U.S. government obligations. Federal mortgage pools are investments that are grandfathered from previous statutes that allow such investments. The exception is the Foundation, whose assets are not governed by state statute.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Hospital's investments held by financial institutions are registered in the Hospital's name.

Securities Lending Transactions - The Hospital engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Hospital received as collateral the market value of securities borrowed plus a premium of 2.0 percent of the market value of those securities. The Hospital records the fair value of the collateral received as both an other current asset and other current liability since the Hospital is obligated to return the collateral upon the return of the borrowed securities. Other current assets (and liabilities) included \$34,214 and \$25,285 of collateral investments at December 31, 2010 and 2009, respectively.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2010 and 2009, the estimated charges forgone of providing charity care services and supplies were approximately \$15,999 and \$16,584, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 4 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments 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. Most outpatient services are paid 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.

Program examinations of cost reports have been finalized for the Medicare program through 2007 and the Medicaid program through 2004. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

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

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 U.S. Department of Justice and other federal agencies have also increased resources dedicated to regulatory investigations and compliance audits of healthcare 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.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2009. The Hospital repaid Medicare \$62,376 in 2010 based on audits conducted to date. The Hospital is unable to determine the extent of future audits or amounts that will need to be repaid.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 5 - Noncurrent Assets Limited as to Use or Restricted

Assets limited as to use or restricted have been set aside at fair value as follows:

| | 2010 | 2009 |
|--|------------------|-------------------|
| Board of trustees: | | |
| Excess and funded depreciation | \$ 58,924 | \$ 68,441 |
| Self-insurance trust | 4,723 | 4,685 |
| Funds held by trustee under bond indenture | <u>14,470</u> | <u>26,063</u> |
| Total assets limited to use by board designation | 78,117 | 99,189 |
| By donor: | | |
| Unrestricted | 2,139 | 2,097 |
| Restricted | <u>3,575</u> | <u>3,039</u> |
| Total by donor | <u>5,714</u> | <u>5,136</u> |
| Total assets limited as to use or restricted | 83,831 | 104,325 |
| Less assets limited as to use or restricted - | | |
| Required for current liabilities | <u>785</u> | <u>712</u> |
| Total | <u>\$ 83,046</u> | <u>\$ 103,613</u> |

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2010 and 2009:

| | 2010 | | | |
|---|----------------------|------------------|--------------------|-------------------|
| | Beginning Balance | Increase | Decrease | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 10,588 | \$ - | \$ - | \$ 10,588 |
| Construction in progress | 7,046 | 18,954 | (12,099) | 13,901 |
| Total capital assets not being depreciated | 17,634 | 18,954 | (12,099) | 24,489 |
| Capital assets being depreciated: | | | | |
| Buildings | 95,488 | 12,252 | (51) | 107,689 |
| Fixed and movable equipment | 116,887 | 11,255 | (6,261) | 121,881 |
| Total capital assets being depreciated | 212,375 | 23,507 | (6,312) | 229,570 |
| Less accumulated depreciation | 126,442 | 11,833 | (6,234) | 132,041 |
| Total capital assets being depreciated - Net | 85,933 | 11,674 | (78) | 97,529 |
| Total capital assets - Net | <u>\$ 103,567</u> | <u>\$ 30,628</u> | <u>\$ (12,177)</u> | <u>\$ 122,018</u> |

During 2010, the Hospital completed the expansion of the operating room suites at the main campus with total building and equipment costs of \$11.5 million, with approximately \$6.6 million incurred in 2010.

In addition, the Hospital began implementing an Electronic Medical Record (EMR) system, a project that will be completed in 2013. Costs associated with the EMR system in 2010 were \$6.2 million. The Hospital also began implementation of an energy management project in 2010. Costs associated with this project were \$5.8 million. The remaining \$4.1 million in additions relates to acquiring various clinical equipment and minor building renovations.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 6 - Capital Assets (Continued)

| | 2009 | | | |
|---|----------------------|------------------|--------------------|-------------------|
| | Beginning Balance | Increase | Decrease | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 10,412 | \$ 176 | | \$ 10,588 |
| Construction in progress | 11,935 | 14,391 | (19,280) | 7,046 |
| Total capital assets not being depreciated | 22,347 | 14,567 | (19,280) | 17,634 |
| Capital assets being depreciated: | | | | |
| Buildings | 76,835 | 18,653 | - | 95,488 |
| Fixed and movable equipment | 109,161 | 7,747 | (21) | 116,887 |
| Total capital assets being depreciated | 185,996 | 26,400 | (21) | 212,375 |
| Less accumulated depreciation | 115,876 | 10,587 | (21) | 126,442 |
| Total capital assets being depreciated - Net | 70,120 | 15,813 | - | 85,933 |
| Total capital assets - Net | <u>\$ 92,467</u> | <u>\$ 30,380</u> | <u>\$ (19,280)</u> | <u>\$ 103,567</u> |

In 2009, the Hospital completed the construction of the Robinson Health Center at Streetsboro, with total building and equipment costs of \$18.6 million, with approximately \$7.4 million incurred in 2009.

Also in 2009, the Hospital began the construction of a surgical suite addition/renovation project and a telephone system replacement project. Costs incurred on these projects at December 31, 2009 were \$5.1 million. The remaining \$7.3 million in additions relates to acquiring various clinical equipment and building renovations.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2010 and 2009 is as follows:

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| Hospital Revenue Bonds Series 2010, bearing interest at variable rates (1.47 percent at December 31, 2010), and maturing in varying amounts from 2019 to 2022 | \$ 7,710 | \$ - |
| Hospital Revenue Bonds, Series 2008, bearing interest at variable rates (.37 percent at December 31, 2010), and maturing in varying amounts through 2033 | 42,710 | 43,770 |
| Hospital Revenue Bond, Series 2005, bearing interest at variable rates (1.00 percent at December 31, 2010), and maturing in varying amounts through 2015 | 18,675 | 28,265 |
| Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$111 and \$124 at December 31, 2010 and 2009, respectively, bearing interest at rates ranging from 5.50 percent to 5.75 percent, and maturing in varying amounts through 2019 | <u>11,954</u> | <u>12,951</u> |
| Total | 81,049 | 84,986 |
| Less current portion | <u>4,210</u> | <u>4,025</u> |
| Long-term portion | <u>\$ 76,839</u> | <u>\$ 80,961</u> |

The Hospital Revenue Bonds Series 2010 (Series 2010 Bonds) were issued by the County of Portage, Ohio in 2010 via a private placement for the purpose of refunding \$7.635 million of the Series 2005 Bonds. The Series 2010 Bonds bear interest at a variable rate reset monthly based on a percent of LIBOR multiplied by the tax rate of the private placement bank. The debt was issued on December 30, 2010 and bore an initial rate of 1.47 percent.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

The Hospital Revenue Bonds, Series 2008 (Series 2008 Bonds) were issued by the County of Portage, Ohio in 2008 for the purpose of providing funds to pay for costs in renovating, constructing, and equipping various parts of the Hospital. The variable rate Series 2008 Bonds are remarketed on a weekly basis. The Series 2008 Bonds are backed by an irrevocable direct-pay letter of credit. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be put back to the bond trustee, who would draw down on the letter of credit to pay down the Series 2008 Bonds. The Series 2008 Bonds have been successfully remarketed; however, due to the state of the current market conditions, management is unable to assess whether the bonds will continue to be successfully remarketed in the future. Further, management is not aware of any events of default in connection with the Series 2008 Bonds. The irrevocable direct-pay letter of credit has an initial term of five years ending October 15, 2013.

The debt obligation supported by the letter of credit is subject to mandatory redemption upon the expiration of the letter of credit or any alternate letter of credit. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

The Series 2008 Bonds bear interest at a variable rate. During 2010, the rates for the variable rate bonds ranged from .20 percent to .38 percent (average rate .29 percent).

The Hospital Revenue Bonds Series 2005 (Series 2005 Bonds) were issued by the County of Portage, Ohio in 2005 for the purpose of providing funds to pay for costs in renovating, constructing, and equipping various parts of the Hospital and refunding the Series 1995 and 2002 Bonds. The variable rate Series 2005 Bonds are remarketed on a weekly basis. The Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be put back to the bond trustee, who would draw down on the letter of credit to pay down the Series 2005 Bonds. With the exception of a four-day period in 2008, the Series 2005 Bonds have been successfully remarketed; however, due to the state of the current market conditions, management is unable to assess whether the bonds will continue to be successfully remarketed in the future. The Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit with an initial term of seven years ending August 15, 2012. In 2007, the Hospital was given an extension to August 15, 2014. The debt obligation supported by the letter of credit is subject to mandatory redemption upon the expiration of the letter of credit or any alternate letter of credit. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage. In December 2010, \$7.653 million and in February 2011, \$9.375 million of the Series 2005 Bonds were refunded.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

The Series 2005 Bonds bear interest at a variable rate. During 2010, the rates for the variable rate bonds ranged from .35 percent to 1.00 percent (average rate .506 percent).

The Hospital Revenue Bonds, Series 1999 (Series 1999 Bonds) were issued by the County of Portage, Ohio (the "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 (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 \$5,650 term bonds due November 15, 2014, and \$7,425 term bonds due November 15, 2019. Early redemption privileges are available.

At December 31, 2010, the fair value of the bonds of approximately \$81,224 exceeded the carrying value of approximately \$81,160.

The following summarizes the outstanding long-term debt as of December 31, 2010 and 2009:

| | | 2010 | | | | | |
|-------------|------------|------------------|-------------------|--------------------|------------------|-----------------|---------------------|
| | | Date of Issuance | Beginning Balance | Additions | Paid or Retired | Ending Balance | Due Within One Year |
| Bonds: | | | | | | | |
| Series 2010 | 12/30/2010 | \$ - | \$ 7,710 | \$ - | \$ 7,710 | \$ - | |
| Series 2008 | 10/1/2008 | 43,770 | - | (1,060) | 42,710 | 1,105 | |
| Series 2005 | 8/18/2005 | 28,265 | - | (9,590) | 18,675 | 2,035 | |
| Series 1999 | 10/1/1999 | 12,951 | - | (997) | 11,954 | 1,070 | |
| Total | | <u>\$ 84,986</u> | <u>\$ 7,710</u> | <u>\$ (11,647)</u> | <u>\$ 81,049</u> | <u>\$ 4,210</u> | |

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

| | Date of Issuance | 2009 | | | | |
|---------------|------------------|-------------------|-------------|-------------------|------------------|---------------------|
| | | Beginning Balance | Additions | Paid or Retired | Ending Balance | Due Within One Year |
| Bonds: | | | | | | |
| Series 2008 | 10/1/2008 | \$ 45,000 | \$ - | \$ (1,230) | \$ 43,770 | \$ 1,060 |
| Series 2005 | 8/18/2005 | 30,145 | - | (1,880) | 28,265 | 1,955 |
| Series 1999 | 10/1/1999 | 13,898 | - | (947) | 12,951 | 1,010 |
| Capital lease | 12/28/2006 | <u>421</u> | <u>-</u> | <u>(421)</u> | <u>-</u> | <u>-</u> |
| Total | | <u>\$ 89,464</u> | <u>\$ -</u> | <u>\$ (4,478)</u> | <u>\$ 84,986</u> | <u>\$ 4,025</u> |

The revenue bond payment requirements as of December 31, 2010 are as follows:

| January 1 | Principal | Interest | Total |
|-----------|------------------|------------------|-------------------|
| 2011 | \$ 4,210 | \$ 2,993 | \$ 7,203 |
| 2012 | 4,390 | 2,831 | 7,221 |
| 2013 | 4,590 | 2,661 | 7,251 |
| 2014 | 4,795 | 2,484 | 7,279 |
| 2015 | 5,010 | 2,298 | 7,308 |
| 2016-2020 | 26,124 | 8,333 | 34,457 |
| 2021-2025 | 12,090 | 4,564 | 16,654 |
| 2026-2030 | 11,595 | 2,572 | 14,167 |
| 2031-2033 | <u>8,245</u> | <u>580</u> | <u>8,825</u> |
| Total | <u>\$ 81,049</u> | <u>\$ 29,316</u> | <u>\$ 110,365</u> |

Note 8 - Interest Rate Swap Agreements

On August 11, 2008, the Hospital entered into a fixed rate swap agreement on \$20,000 of the Series 2008 bonds for a period of 25 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.47 percent and receives a floating rate equal to 68 percent of the USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate received ranged from .16 percent to .24 percent (average of .18 percent) in 2010.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 8 - Interest Rate Swap Agreements (Continued)

On July 22, 2005, the Hospital entered into a fixed rate swap agreement on \$32,455 of the Series 2005 bonds for a period of 17 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.17 percent and receives a floating rate equal to 67 percent of USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate received ranged from .15 percent to .24 percent (average rate of .18 percent) in 2010.

A summary of the Hospital's interest rate swap agreements follows:

| Swap Type | Maturity Date | Hospital Pays | Hospital Receives | At December 31, 2010 | | Credit Rating |
|-----------|---------------|---------------|------------------------|----------------------------|-------------------|---------------|
| | | | | National Value | Fair Value | |
| Fixed | 11/1/2022 | 3.17% | 67% of one-month LIBOR | \$ 26,310 | \$ (1,992) | Baa1/BBB+/A- |
| Fixed | 9/1/2033 | 3.47% | 68% of one-month LIBOR | <u>20,000</u> | <u>(2,318)</u> | Aa1/A+/AA- |
| | | | | <u>\$ 46,310</u> | <u>\$ (4,310)</u> | |

Credit Risk - The Hospital is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Hospital's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian.

Interest Rate Risk - The Hospital is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Securities Industry and Financial Markets Association (SIFMA) swap decreases, the Hospital's net payment on the swap increases.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 8 - Interest Rate Swap Agreements (Continued)

Basis Risk - The Hospital is exposed to basis risk on its LIBOR-based interest rate swaps due to variable-rate payments received by the Hospital on these instruments based on a rate or index other than interest rates the Hospital pays on its variable-rate debt, which is remarketed weekly.

The fixed rate swaps have been designated as effective swaps. Accordingly, any change in the swaps' fair value is recorded as a change in other current assets and other current liabilities.

Note 9 - Employee Benefit Plans

The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: the traditional pension plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) - a defined contribution plan; and the combined plan (CO) - a cost-sharing, multiple-employer, defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees.

Total required employer contributions made were \$7,961 in 2010, \$8,127 in 2009, and \$8,008 in 2008. Employer contributions represented 14.0 percent of covered payroll in 2010, 2009, and 2008. Employee contributions were \$5,686 in 2010, \$5,805 in 2009, and \$5,720 in 2008, representing 10.0 percent of covered payroll in 2010, 2009, and 2008, and were consistent across all three plans (TP, MD, and CO) and are actuarially determined.

Robinson Memorial Portage County Hospital's payroll for employees covered by PERS for the years ended December 31, 2010 and 2009 was approximately \$56,863 and \$58,050, respectively. The Hospital's total payroll was approximately \$61,019 in 2010 and \$62,667 in 2009.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 9 - Employee Benefit Plans (Continued)

The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010 and 5.0 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.7 percent from January 1 through February 28, 2010 and 4.2 percent from March 1 through December 31, 2010.

Note 10 - 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 actuarially determined 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. These amounts are recorded at the estimated present value using a discount rate of 4.0 percent for 2010 and 2009. The change in the liability for self-insurance is as follows (amounts in thousands):

| | 2010 | 2009 |
|------------------------------|-----------------|-----------------|
| Beginning balance | \$ 2,212 | \$ 3,018 |
| Provision for self-insurance | 212 | 522 |
| Claims paid and other | - | (1,328) |
| Ending balance | <u>\$ 2,424</u> | <u>\$ 2,212</u> |

For the years ended December 31, 2010 and 2009, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate. The Hospital established a trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2010 and 2009 (amounts in thousands)

Note 11 - Compensated Absences

Hospital employees earn vacation and sick leave at varying rates depending on length of service. Employees can accumulate up to three years of vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the Hospital. Upon retirement or death, unused leave balances (up to a maximum of 240 hours) are paid at varying rates depending on length of service. As of December 31, 2010 and 2009, the liability for unpaid compensated absences was \$3,847 and \$3,154, respectively.

Note 12 - Care Assurance

The Hospital participates in the State of Ohio's Care Assurance Program, which was established in 1988 to assist hospitals that had a disproportionate amount of uncompensated care. Under the program, Ohio hospitals, including the Hospital, are assessed an amount which forms a pool of funds to be matched with federal Medicaid funds for payments to hospitals. Total net revenue to the Hospital under the Care Assurance Program aggregated approximately \$1,360 and \$1,275 in 2010 and 2009, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

Note 13 - Subsequent Event

On February 24, 2011, Portage County issued the Hospital Revenue Bonds Series 2011 (Series 2011 Bonds) via a private placement for the purpose of refunding \$9.375 million of the Series 2005 Bonds. The Series 2011 Bonds bear interest at a variable rate reset monthly based on a percent of LIBOR multiplied by the tax rate of the private placement bank.

The purpose of the 2011 bonds is to reduce some of the risk that the Hospital currently has with the Series 2005 Bonds. The Series 2005 Bonds letter of credit expires in 2014 and in the event that the Hospital could not find a new letter of credit, the Series 2010 and 2011 Bonds minimize the potential for higher interest costs for the period 2015-2022.

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

To the Board of Trustees
Robinson Memorial Portage
County Hospital and Affiliates

We have audited the basic financial statements of Robinson Memorial Portage County Hospital and Affiliates, a component unit of Portage County, as of and for the year December 31, 2010 and have issued our report thereon dated April 27, 2011. We 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Robinson Memorial Portage County Hospital and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Robinson Memorial Portage County Hospital and Affiliates' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
Robinson Memorial Portage County
Hospital and Affiliates

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Robinson Memorial Portage County Hospital and Affiliates' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Auditor of the State of Ohio, the board of trustees of Robinson Memorial Portage County Hospital and Affiliates, management, and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 27, 2011

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Dave Yost • Auditor of State

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL AND AFFILIATES

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 9, 2011**