

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2007**



Mary Taylor, CPA

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, 2007 through December 31, 2007. 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 23, 2008

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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 balance sheet of Robinson Memorial Portage County Hospital and Affiliates (a component unit of Portage County) (the "Hospital") as of December 31, 2007 and 2006 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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 at December 31, 2007 and 2006 the results of their operations and their 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 our report dated March 31, 2008 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 an opinion on the effectiveness of internal control 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 audit.

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

The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

March 31, 2008

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, 2007, 2006, and 2005. 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.

Financial Highlights

- In 2007, total assets increased \$27.3 million over 2006 levels. Capital assets increased \$17.2 million due to construction of the new Robinson Professional Center. Total cash and investments on hand at December 31, 2007 decreased \$6.1 million over December 31, 2006. Net accounts receivable increased \$834 thousand. Net days' revenue in accounts receivable were 49.4 days at December 31, 2007, compared to 51.0 days at December 31, 2006 and 41.6 days at December 31, 2005.
- In 2006, total assets increased \$18.0 million over 2005 levels. Total cash and investments on hand at December 31, 2006 increased \$3.0 million over December 31, 2005. Net accounts receivable increased \$4.6 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 \$55.3 million in 2007, \$40.1 million in 2006, and \$3.1 million in 2005.

- In 2007, additions to property, plant, and equipment were \$26.0 million compared to \$10.4 million in 2006 and \$7.2 million in 2005. The additions to property, plant, and equipment were mainly due to construction in progress associated with the Robinson Professional Center, which opened in January 2008.
- In 2006, \$1.1 million was added for management information systems file servers via capital lease for 36 months with an implicit rate of 1.79 percent. New debt was issued in 2005 for the purpose of funding ongoing capital purchases and to refinance existing debt.
- In 2007, total liabilities increased \$17.1 million, current liabilities increased \$19.6 million, mainly due to securities lending programs, and long-term debt decreased \$2.2 million due to payment of principal.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

- In 2006, total liabilities increased \$7.1 million, current liabilities increased \$9.9 million, mainly due to securities lending programs, and long-term liabilities decreased \$2.8 million due to reduction in self-insurance and principal payment on debt.
- Net cash provided by operating activities was \$16.8 million in 2007 versus \$10.8 million in 2006 and \$15.1 million in 2005.
- Operating income (excluding interest expense and income on investments) was approximately \$4.8 million in 2007 compared to an operating income of approximately \$8.2 million in 2006 and \$3.2 million in 2005.

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 to provide improved quality of, and access to, healthcare 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, to be paid by the Hospital to Summa. In 2007, the Hospital did not incur any cost related to the affiliation fee.

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 \$10.1 million to \$132.2 million at December 31, 2007 from \$122.1 million at December 31, 2006.

Table I provides a summary of the Hospital's total net assets at December 31, 2007 compared to December 31, 2006 and 2005.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Table I
Net Assets (in thousands)

	2007	2006	2005
Assets			
Cash	\$ 8,171	\$ 7,110	\$ 7,434
Net accounts receivable	19,410	18,576	13,979
Other current assets	60,853	45,598	37,848
Assets limited as to use	81,775	88,957	85,684
Other assets	2,667	2,579	2,345
Capital assets	<u>82,268</u>	<u>65,043</u>	<u>62,569</u>
Total assets	<u>\$ 255,144</u>	<u>\$ 227,863</u>	<u>\$ 209,859</u>
Liabilities			
Current liabilities	\$ 75,866	\$ 56,245	\$ 46,340
Long-term debt	44,420	46,597	47,463
Other long-term liabilities	<u>2,641</u>	<u>2,934</u>	<u>4,839</u>
Total liabilities	122,927	105,776	98,642
Net Assets			
Unrestricted	93,020	102,569	95,429
Invested in capital assets - Net of related debt	35,752	16,341	13,146
Restricted	<u>3,445</u>	<u>3,177</u>	<u>2,642</u>
Total net assets	<u>132,217</u>	<u>122,087</u>	<u>111,217</u>
Total liabilities and net assets	<u>\$ 255,144</u>	<u>\$ 227,863</u>	<u>\$ 209,859</u>

In 2007, the Hospital's cash and investment position decreased \$6.1 million from 2006 and in 2006 increased \$3.0 million from 2005.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Accounts (in thousands)

	2007	2006	2005
Operating cash	\$ 8,171	\$ 7,110	\$ 7,434
Assets limited as to use	81,323	87,808	75,581
Trustee bond funds for current liabilities	452	1,149	10,103
	<u> </u>	<u> </u>	<u> </u>
Total cash and investments	<u>\$ 89,946</u>	<u>\$ 96,067</u>	<u>\$ 93,118</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 trustee bond funds from 2005 to 2007 is due to capital expenditures which were funded from the 2005 Bonds.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased by \$834 thousand between December 31, 2006 and December 31, 2007 mainly due to increased net patient service revenue. Days in receivables decreased by 1.6 days. Patient accounts receivable, net of allowance for uncollectibles, increased by \$4.6 million between December 31, 2005 and 2006 and patient days increased by 9.4 days.

Capital Assets

Capital assets increased from \$65.0 million in 2006 to \$82.3 million in 2007. The increase relates to \$26.0 million in net capital additions, offset partially by \$8.7 million in depreciation expense. Capital additions include primarily the construction in progress related to the Robinson Professional Center Building, renovations of patient units, purchase of beds, and various clinical equipment replacements and upgrades.

Capital assets increased from \$62.6 million in 2005 to \$65.0 million in 2006. The increase related to \$10.4 million in net capital additions, offset by \$8.0 million in depreciation expense. Capital additions include primarily the construction in progress related to the Robinson Medical Arts Building II, MIS file server replacements, and various clinical equipment replacements and upgrades.

Debt Administration

The Hospital has agreed to maintain certain bond covenant ratios on a yearly basis. Covenant ratios include day's 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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Ratios

	2007	2006	2005	Covenant
Days cash on hand	216.40	238.60	212.90	100.00
Maximum debt service coverage	4.27	4.27	3.03	1.50
Historical debt service coverage	4.39	5.37	2.45	1.10
Cushion ratio	16.80	17.98	15.81	1.50

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2007 compared to 2006 and 2005.

Table 2
Revenue and Expenses (in thousands)

	2007	2006	2005
Operating Revenue	\$ 141,375	\$ 138,413	\$ 130,238
Operating Expense	<u>136,626</u>	<u>130,205</u>	<u>127,036</u>
Operating Income	4,749	8,208	3,202
Nonoperating Revenue (Expenses)			
Investment and other income - Net	4,481	4,065	3,028
Interest expense	(2,277)	(2,261)	(2,318)
Change in net unrealized gains and losses	<u>2,543</u>	<u>118</u>	<u>(1,451)</u>
Total nonoperating revenue (expenses)	<u>4,747</u>	<u>1,922</u>	<u>(741)</u>
Excess of Revenues Over Expenses	9,496	10,130	2,461
Gifts, Grants, Bequests, and Other	634	740	532
Loss on Refunding of Long-term Debt	<u>-</u>	<u>-</u>	<u>(360)</u>
Increase in Net Assets	10,130	10,870	2,633
Net Assets - Beginning of year	<u>122,087</u>	<u>111,217</u>	<u>108,584</u>
Net Assets - End of year	<u><u>\$ 132,217</u></u>	<u><u>\$ 122,087</u></u>	<u><u>\$ 111,217</u></u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Net Patient Service Revenue

Total operating revenues increased \$3.0 million, or 2.1 percent, in 2007 as compared to 2006 and \$8.2 million, or 6.3 percent, in 2006 as compared to 2005.

In 2007, inpatient days were higher by 1,229 days or 3.3 percent over 2006 levels, along with higher volumes in areas such as respiratory care and rehab.

In 2006, higher volumes occurred in inpatient days and in outpatient areas such as radiology and rehab.

Inpatient Business Activity

Total admissions in 2007 increased .6 percent. In 2006, admissions were 1.5 percent higher than 2005 (in thousands): Total patient days (excluding newborns) increased by 1,001 days in 2007 and increased 1,030 days in 2006 from 2005. Length of stay (LOS) for Hospital inpatients has increased slightly in 2007 as shown below:

Specialty

	Patient Days		
	2007	2006	2005
Medical/Surgical	22,436	21,659	20,780
Critical care	3,941	3,720	3,955
Step Down Unit	8,080	8,330	7,703
Pediatrics	-	-	202
Obstetrics	2,339	2,149	2,188
Subtotal	36,796	35,858	34,828
Newborn	1,774	1,483	1,284
Total	<u>38,570</u>	<u>37,341</u>	<u>36,112</u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

	Average Length of Stay		
	2007	2006	2005
Medical/Surgical	5.2	5.2	5.4
Critical care	2.4	2.2	2.4
Step Down Unit	5.0	4.1	3.7
Pediatrics	-	-	1.7
Obstetrics	2.3	2.3	2.3
Newborn	2.1	2.1	2.1

The increase in inpatient admissions can be attributed mainly to increases in OB/GYN. Other changes in adult medical/surgical areas are impacted by the implementation of a hospitalist program in 2006. In October 2005, the Hospital entered into a rental agreement with Akron Children's Hospital for its pediatric unit. This accounts for the decrease of pediatric admissions and patient days in 2006 and 2007.

The increase in inpatient admissions in 2006 can be attributed mainly to internal medicine and OB/GYN. The increase in patient days is attributed to medical/surgical days.

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 6.5 percent (includes 5.0 percent price increase), in 2007 after increasing 12.6 percent in 2006 and now accounts for 59.8 percent of patient revenue in 2007.

In February 2006, the Hospital opened the Robinson Imaging Center of Kent, which offers PET, MRI, CT, mammography, ultrasound, and general X-ray services. This center accounts for approximately \$8.5 million and \$7.5 million of outpatient revenues in 2007 and 2006, respectively.

Other areas that recorded the largest increase in revenue during 2007 were the physician practices, laboratory, radiology (including CT scans and MRI), emergency department, and the cardiac cath lab. Several new physicians joined our practice locations in the past several years, including OB/GYNs, pediatricians, and internal medicine physicians.

Deductions from Revenue

Contractual service adjustments were 56.1 percent of gross revenues in 2007 versus 53.5 percent in 2006 and 52.7 percent in 2005. The increased percentages are due to increased length of stay and the price increases approved in 2007 and 2006 by the board of trustees which exceed increased reimbursements from Medicare and Medicaid and changes in negotiated reimbursement with third-party insurers.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

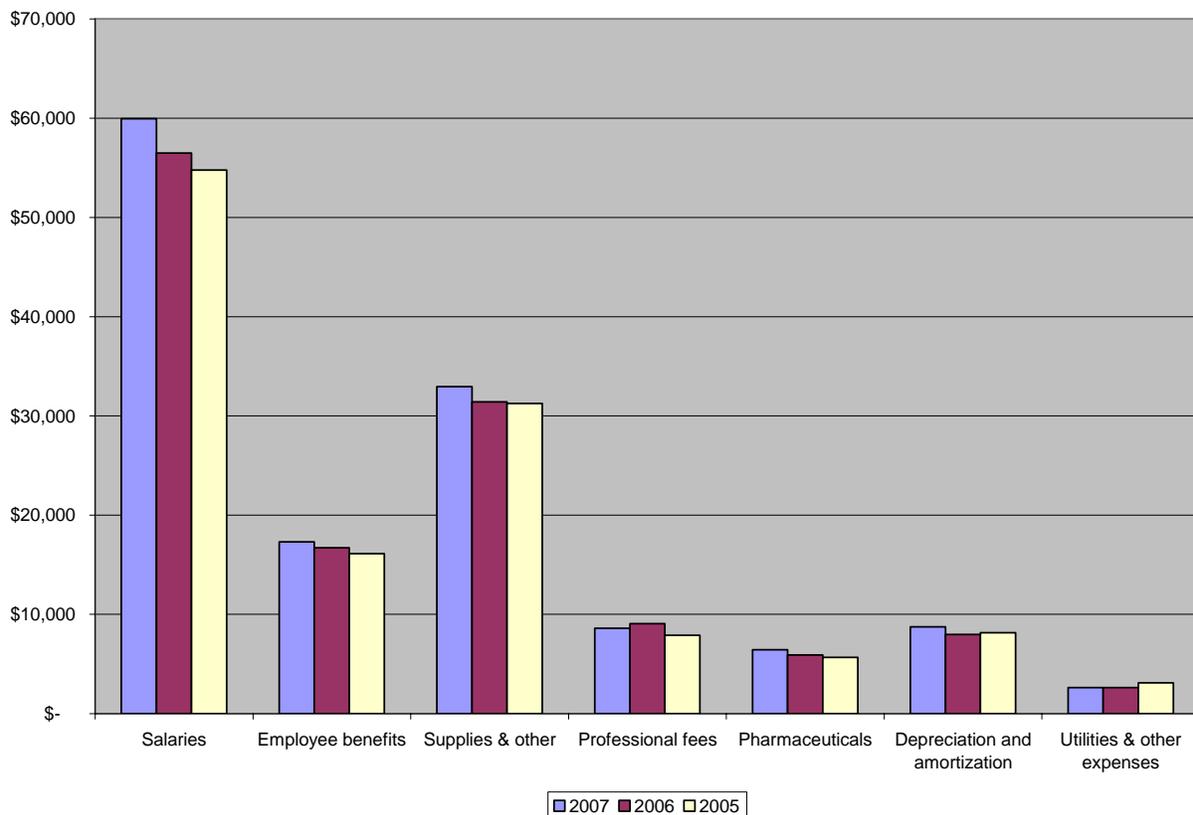
Bad debt provision was \$6.8 million in 2007 vs. \$6.2 million for 2006 and \$7.7 million for 2005.

Charity care for 2007 was \$14.9 million, an increase of \$1.2 million or 8.8 percent over the \$13.7 million in 2006. In 2005, charity care was \$9.4 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 2007, the Hospital received \$2.1 million net from the Ohio Care Assurance Program, compared to \$1.6 million in 2006 and \$1.4 million in 2005.

Operating Expenses

Total operating expenses in 2007 exceeded 2006 levels by \$6.4 million, or 4.9 percent, due to increased volumes and inflation. In 2006, total operating expenses were \$3.2 million, or 2.5 percent, higher than 2005.

Operating Expense Comparison (in thousands)



Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

The largest percentage increases in operating expenses in 2007 over 2006 levels are reflected in pharmaceuticals (8.9 percent), salaries (6.1 percent), and supplies & other (4.9 percent).

The major increases in 2006 over 2005 are in professional fees (14.6 percent), utilities (11.0 percent), and salaries (3.1 percent).

Salaries

Salaries increased \$3.4 million, or 6.1 percent, in 2007 from 2006 levels, due mainly to wage increases of roughly 4.0 percent and increased staffing due to increased volumes. The number of full-time equivalent positions in 2007 was 1,282.2 versus 1,244.0 in 2006 and 1,239.1 in 2005.

Supply and Other Expenses

Supply and other expense cost increased \$1.5 million, or 4.9 percent, in 2007 over the 2006 level.

Supply and other expenses increased .5 percent between 2005 and 2006.

Pharmaceuticals

Pharmaceuticals increased 8.9 percent in 2007 over 2006 levels due to increased volumes. For 2006, pharmaceutical costs increased by 4.0 percent over 2005 levels due mainly to increased volumes and increases in cost per dosage.

Utilities & Other

Utilities remained flat in 2007 as compared to 2006. In 2006, the increase in utilities was 11.0 percent and is also attributed to increased cost of natural gas and electricity.

Depreciation and Amortization

Depreciation and amortization increased 9.8 percent as the Hospital had renovations to inpatient rooms, including new beds and furniture. In addition, several software systems were purchased in 2007. In 2006, no major renovation projects occurred, resulting in a slight decrease in depreciation and amortization compared to 2005.

Nonoperating Revenues and Expenses

Investment and Other Income

Investment and other income increased \$.4 million in 2007 over 2006 due primarily to the rise in bond interest rates, offset by declining investment balances due to capital asset additions funded from investments.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Investment and other income decreased \$1.0 million from 2006 to 2005 due to primarily to the rise in bond interest rates and the increased amount of investments.

Economic Factors and Next Year's Budget

The board of trustees approved the 2008 operating budget at their October 2007 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 \$3.3 million, a 2.2 percent operating margin. The 2008 operating budget projects \$6.3 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 (in thousands)

	December 31	
	2007	2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,171	\$ 7,110
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	452	218
Patient accounts receivable - Less allowance for estimated uncollectible accounts of approximately \$4,125,000 in 2007 and \$4,257,000 in 2006	19,410	18,576
Estimated third-party payor settlements	-	460
Other current assets	60,401	44,920
Total current assets	88,434	71,284
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	81,775	88,957
Capital Assets - Net (Note 6)	82,268	65,043
Other Assets	2,667	2,579
Total assets	<u>\$ 255,144</u>	<u>\$ 227,863</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 2,096	\$ 2,105
Accounts payable	5,763	4,959
Accrued employee compensation	2,701	1,868
Accrued employee compensated absences (Note 11)	3,668	3,373
Accrued expenses	5,612	3,850
Other current liabilities	56,026	40,090
Total current liabilities	75,866	56,245
Long-term Debt - Net of current portion (Note 7)	44,420	46,597
Self-insurance and Other Liabilities (Note 10)	2,641	2,934
Total liabilities	122,927	105,776
Net Assets		
Invested capital assets - Net of related debt	35,752	16,341
Restricted by donor for specific uses	3,445	3,177
Unrestricted	93,020	102,569
Total net assets	132,217	122,087
Total liabilities and net assets	<u>\$ 255,144</u>	<u>\$ 227,863</u>

Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2007	2006
Operating Revenue		
Net patient service revenue	\$ 137,298	\$ 132,831
Other	4,077	5,582
Total operating revenue	141,375	138,413
Operating Expenses		
Salaries and wages	59,941	56,498
Employee benefits	17,311	16,716
Supplies and other expenses	32,952	31,412
Professional services	8,598	9,064
Utilities	2,623	2,618
Pharmaceutical	6,442	5,919
Depreciation and amortization	8,759	7,978
Total operating expenses	136,626	130,205
Operating Income	4,749	8,208
Nonoperating Revenue and Expenses		
Investment and other income - Net	4,481	4,065
Interest expense	(2,277)	(2,261)
Changes in net unrealized gains and losses	2,543	118
Excess of Revenue Over Expenses	9,496	10,130
Gifts, Grants, Bequests, and Other	634	740
Increase in Net Assets	10,130	10,870
Net Assets - Beginning of year	122,087	111,217
Net Assets - End of year	\$ 132,217	\$ 122,087

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (in thousands)

	Year Ended December 31	
	2007	2006
Cash Flows from Operating Activities		
Cash received from patients	\$ 137,602	\$ 128,375
Other cash receipts	4,077	5,582
Cash payments to suppliers	(48,802)	(50,024)
Cash payments to employees	(76,124)	(73,098)
Net cash provided by operating activities	16,753	10,835
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	634	871
Cash Flows from Capital and Related Financing Activities		
Purchase of property	(25,962)	(10,417)
Principal paid on debt	(2,186)	(1,964)
Interest paid on debt	(2,277)	(2,242)
Net cash used in capital and related financing activities	(30,425)	(14,623)
Cash Flows from Investing Activities		
Purchases of investments	(52,475)	(49,765)
Sale of investments	53,260	47,446
Investment and other income	4,481	4,065
Changes in assets limited as to use	8,833	847
Net cash provided by investing activities	14,099	2,593
Net Increase (Decrease) in Cash and Cash Equivalents	1,061	(324)
Cash and Cash Equivalents - Beginning of year	7,110	7,434
Cash and Cash Equivalents - End of year	\$ 8,171	\$ 7,110
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 4,749	\$ 8,208
Adjustment to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	8,759	7,978
Provision for bad debts and other charges	6,848	6,226
Changes in assets and liabilities:		
Patient accounts receivable	(7,681)	(10,824)
Other current assets	(15,481)	(8,515)
Other assets	(237)	(234)
Accounts payable	804	413
Other current liabilities	15,259	8,953
Compensated absences and accrued employee compensation	1,128	116
Estimated third-party payor settlements	1,136	141
Other liabilities and accrued expenses	1,469	(1,627)
Net cash provided by operating activities	\$ 16,753	\$ 10,835

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note I - 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 \$13 at December 31, 2007 and 2006.

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007 to provide improved quality of, and access to, healthcare 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, to be paid by the Hospital to Summa. In 2007, the Hospital did not incur any cost related to the affiliation fee.

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 will have a 50 percent ownership in Summa Robinson Health Ventures, which will be recorded under the equity method. 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2007 and 2006, the Hospital has recorded an asset of \$1,055 and \$767, respectively, equal to the investment in RROC.

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

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), statements, and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

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.

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note I - Summary of Significant Accounting Policies (Continued)

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.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

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 consist 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 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 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 \$258 and \$251 for the years ended December 31, 2007 and 2006, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments, which are restricted by donor, are added to (deducted from) restricted amounts.

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 and equipment, and investments are recorded at fair market value at 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

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 32 percent and 33 percent of the Hospital's net patient service revenue for the years ended December 31, 2007 and 2006, respectively. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 7 percent and 6 percent for the years ended December 31, 2007 and 2006, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 16 percent and 14 percent for the years ended December 31, 2007 and 2006, respectively. 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.

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

Goodwill - Goodwill is included in other assets. Goodwill is being amortized on a straight-line method over a period of 5 to 25 years.

Goodwill and intangible assets are tested annually for impairment, and an asset is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note I - Summary of Significant Accounting Policies (Continued)

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.

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2007 and 2006 are as follows (in thousands):

	2007	2006
Pledges due:		
In less than one year	\$ 108	\$ 223
In one to five years	398	325
Total	506	548
Allowance for doubtful pledges	(10)	(11)
Net	<u>\$ 496</u>	<u>\$ 537</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

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.

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, 2007 and 2006 totaled \$2,299 and \$5,979, respectively, and were subject to the following categories of custodial risk (in thousands):

	2007	2006
Collateralized with securities held by the pledging institution's trust department	\$ 1,979	\$ 5,659
Amount insured	320	320
Total bank balances	\$ 2,299	\$ 5,979

Investments

As of December 31, 2007 and 2006, the fair value of the Hospital's investments was as follows (in thousands):

	2007	2006
Cash and cash equivalents	\$ 2,278	\$ 1,942
Equities	1,931	1,287
U.S. government obligations	79,773	87,837
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	2,085	2,440
Corporate bonds	-	106
Total investments	\$ 86,067	\$ 93,612

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 2 - Deposits and Investments (Continued)

The carrying amounts of the Hospital's deposits and investments at December 31, 2007 and 2006 were as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Deposits	\$ 4,331	\$ 2,673
Investments	<u>86,067</u>	<u>93,612</u>
Total deposits and investments	<u>\$ 90,398</u>	<u>\$ 96,285</u>

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, 2007 have a weighted average life of less than seven years.

Credit Risk - The majority of the Hospital's investment policies are governed by the 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 the 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 as an 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 \$55,349 and \$40,089 of collateral investments at December 31, 2007 and 2006, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2007 and 2006, the estimated charges forgone of providing charity care services and supplies were approximately \$14,944 and \$13,677, respectively.

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 2006 and the Medicaid program through 2002. 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 preferred provider 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 5 - Noncurrent Assets Limited as to Use or Restricted

As of December 31, 2007 and 2006, assets limited as to use or restricted have been set aside at fair value as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Board of trustees:		
Excess and funded depreciation	\$ 71,585	\$ 78,231
Self-insurance trust	5,590	5,254
Funds held by trustee under bond indenture	<u>452</u>	<u>932</u>
Total assets limited to use by board designation	77,627	84,417
By donor:		
Unrestricted	1,956	1,916
Restricted	<u>2,644</u>	<u>2,842</u>
Total by donor	<u>4,600</u>	<u>4,758</u>
Total assets limited as to use or restricted	82,227	89,175
Less assets limited as to use or restricted -		
Required for current liabilities	<u>452</u>	<u>218</u>
Total	<u>\$ 81,775</u>	<u>\$ 88,957</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, 2007 and 2006 (amounts in 000s)

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2007 and 2006 (in thousands):

	2007			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 4,912	\$ 5,358	\$ -	\$ 10,270
Construction in progress	<u>3,766</u>	<u>9,601</u>	<u>-</u>	<u>13,367</u>
Total capital assets not being depreciated	8,678	14,959	-	23,637
Capital assets being depreciated:				
Buildings	60,235	1,858	-	62,093
Fixed and movable equipment	<u>94,237</u>	<u>9,145</u>	<u>(494)</u>	<u>102,888</u>
Total capital assets being depreciated	154,472	11,003	(494)	164,981
Less accumulated depreciation	<u>98,107</u>	<u>8,714</u>	<u>(471)</u>	<u>106,350</u>
Total capital assets being depreciated - Net	<u>56,365</u>	<u>2,289</u>	<u>(23)</u>	<u>58,631</u>
Total capital assets - Net	<u>\$ 65,043</u>	<u>\$ 17,248</u>	<u>\$ (23)</u>	<u>\$ 82,268</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 6 - Capital Assets (Continued)

	2006			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 4,306	\$ 683	\$ (77)	\$ 4,912
Construction in progress	<u>1,258</u>	<u>3,766</u>	<u>(1,258)</u>	<u>3,766</u>
Total capital assets not being depreciated	5,564	4,449	(1,335)	8,678
Capital assets being depreciated:				
Buildings	58,520	1,752	(37)	60,235
Fixed and movable equipment	<u>90,128</u>	<u>5,459</u>	<u>(1,350)</u>	<u>94,237</u>
Total capital assets being depreciated	148,648	7,211	(1,387)	154,472
Less accumulated depreciation	<u>91,643</u>	<u>7,920</u>	<u>(1,456)</u>	<u>98,107</u>
Total capital assets being depreciated - Net	<u>57,005</u>	<u>(709)</u>	<u>69</u>	<u>56,365</u>
Total capital assets - Net	<u>\$ 62,569</u>	<u>\$ 3,740</u>	<u>\$ (1,266)</u>	<u>\$ 65,043</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2007 and 2006 is as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Hospital Revenue Bonds, Series 2005, bearing interest at variable rates (3.48 percent at December 31, 2007), and maturing in varying amounts through 2022	\$ 30,945	\$ 31,715
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$150 and \$162 at December 31, 2007 and 2006, respectively, bearing interest at rates ranging from 5.15 percent to 5.75 percent, and maturing in varying amounts through 2019	14,801	15,658
Capital lease obligations and other long-term debt	<u>770</u>	<u>1,329</u>
Total	46,516	48,702
Less current portion	<u>2,096</u>	<u>2,105</u>
Long-term portion	<u>\$ 44,420</u>	<u>\$ 46,597</u>

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 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 variable rate Series 2005 bonds are remarketed on a weekly basis. 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. Repayment of any remarketing draws made as called for under the reimbursement agreement to the letter of credit is not due until the 368th day after the remarketing draw occurs. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 7 - Long-term Debt (Continued)

The Series 2005 Bonds bear interest at a variable rate. During 2007, the rates for the variable rate bonds ranged from 3.14 percent to 4.01 percent (average rate 3.68 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 \$1,875 outstanding serial bonds which mature in increasing amounts from \$915 on November 15, 2008 to \$960 on November 15, 2009; \$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, 2007, the fair value of the bonds of approximately \$46,604 exceeded the carrying value of approximately \$45,895.

In December 2006, the Hospital entered into a three-year lease for purchase of file servers at an implicit interest rate of 1.79 percent.

The following summarizes the outstanding long-term debt as of December 31, 2007 and 2006 (in thousands):

	Date of Issuance	2007				Ending Balance	Due Within One Year
		Beginning Balance	Additions	Paid or Retired			
Bonds:							
Series 2005	8/18/2005	\$ 31,715	\$ -	\$ (770)	\$ 30,945	\$ 800	
Series 1999	10/1/1999	15,658	-	(857)	14,801	915	
Capital lease	10/31/2001	184	-	(184)	-	-	
File servers capital lease	12/28/2006	1,145	-	(375)	770	381	
Total		<u>\$ 48,702</u>	<u>\$ -</u>	<u>\$ (2,186)</u>	<u>\$ 46,516</u>	<u>\$ 2,096</u>	

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 7 - Long-term Debt (Continued)

	Date of Issuance	2006				Ending Balance	Due Within One Year
		Beginning Balance	Additions	Paid or Retired			
Bonds:							
Series 2005	8/18/2005	\$ 32,455	\$ -	\$ (740)	\$ 31,715	\$ 770	
Series 1999	10/1/1999	16,475	-	(817)	15,658	870	
Capital lease	10/31/2001	475	98	(389)	184	90	
File servers capital lease	2/1/2003	18	-	(18)	-	-	
File servers capital lease	12/28/2006	-	1,145	-	1,145	375	
Total		<u>\$ 49,423</u>	<u>\$ 1,243</u>	<u>\$ (1,964)</u>	<u>\$ 48,702</u>	<u>\$ 2,105</u>	

The revenue bond payment requirements as of December 31, 2007 are as follows (in thousands):

January 1	Principal	Interest	Total
2008	\$ 1,715	\$ 1,811	\$ 3,526
2009	2,840	1,733	4,573
2010	2,965	1,622	4,587
2011	3,105	1,504	4,609
2012	3,235	1,381	4,616
2013	3,385	1,252	4,637
2014	3,535	1,116	4,651
2015	3,695	974	4,669
2016	3,865	823	4,688
2017	4,040	664	4,704
2018	4,225	497	4,722
2019	4,425	322	4,747
2020	2,170	143	2,313
2021	1,320	78	1,398
2022	1,375	36	1,411
2023	-	-	-
Total	<u>\$ 45,895</u>	<u>\$ 13,956</u>	<u>\$ 59,851</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 7 - Long-term Debt (Continued)

The capital lease requirements as of December 31, 2007 are as follows (in thousands):

January 1	Total Capital Lease Obligations		
	Principal	Interest	Total
2008	\$ 381	\$ 11	\$ 392
2009	389	4	393
	<u>\$ 770</u>	<u>\$ 15</u>	<u>\$ 785</u>

In 2007, the Hospital retired the capital lease related to copier machines of \$183. The Hospital has entered into a new operating lease to handle photocopying.

Note 8 - Interest Rate Swap Agreements

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 ranged from 3.2 percent to 3.8 percent (average rate of 3.6 percent) in 2007.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

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 \$7,636 in 2007, \$7,106 in 2006, and \$6,774 in 2005. Employer contributions represented 13.85 percent of covered payroll in 2007 and 13.70 percent for 2006. Employee contributions were \$5,238 in 2007, \$4,668 in 2006, and \$4,249 in 2005, representing 9.5 percent of covered payroll in 2007 and 9.0 percent of covered payroll in 2006 and was consistent across all three plans (TP, MD, and CO) and are actuarially determined. In 2007, approximately 95 percent of the contributions as a percentage of covered payroll were used to fund pension obligations; the remaining amounts were used to fund healthcare programs for retired members. For 2006 and 2005, 95.5 percent and 96 percent, respectively; of the contributions as a percentage of covered payroll were used to fund pension obligations, the remaining amounts were used to fund healthcare programs for retired members.

The Hospital's payroll for employees covered by PERS for the years ended December 31, 2007 and 2006 was approximately \$55,135 and \$51,871, respectively. The Hospital's total payroll was approximately \$59,941 in 2007 and \$56,498 in 2006.

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, 2007 and 2006 (amounts in 000s)

Note 9 - Employee Benefit Plans (Continued)

PERS does not make separate measurements of assets and accrued liabilities for individual employers. At December 31, 2006, the most recent data available, the total PERS 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 healthcare benefits, in millions of dollars, is presented below:

Accrued postretirement healthcare liability	\$ 30,700
Net assets available for benefits	<u>12,000</u>
Unfunded actuarial accrued liability	<u>\$ 18,700</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. The number of active contributing participants in the Traditional and Combined Plans at December 31, 2007 was 374,979. Of the total required Hospital contribution, 5.5 percent for 2007 and 4.5 percent for 2006 was actually made to fund postretirement healthcare benefits.

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 3.0 percent for 2007 and 4 percent for 2006. The change in the liability for self-insurance is as follows (in thousands):

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2007 and 2006 (amounts in 000s)

Note 10 - Medical Malpractice Claims

	2007	2006
Beginning balance	\$ 2,847	\$ 4,736
Provision for self-insurance	(206)	986
Claims paid and other	-	(2,875)
Ending balance	<u>\$ 2,641</u>	<u>\$ 2,847</u>

For the years ended December 31, 2007 and 2006, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate. The Hospital established an irrevocable 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.

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, 2007 and 2006, the liability for unpaid compensated absences was \$3,668 and \$3,373, 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 \$2,050 and \$1,600 in 2007 and 2006, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

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

We have audited the financial statements of Robinson Memorial Portage County Hospital (a component unit of Portage County) as of and for the year December 31, 2007 and have issued our report thereon dated March 31, 2008. 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's 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's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a significant deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be a significant deficiency.

To the Board of Trustees
Robinson Memorial Portage
County Hospital

Significant Deficiency

During our year-end procedures, we noted one significant transaction that occurred during the fourth quarter of the year that was not properly recorded in the ledger as of year end, nor was it recorded to the financial records when we commenced year end audit field work. While the amount was noted as reconciling items as part of the account reconciliation process, it was not resolved and recorded to the financial records in a timely manner. The transactions involved the purchase of a parcel of land.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Robinson Memorial Portage County Hospital's 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*.

We noted certain matters that we reported to management of Robinson Memorial Portage County Hospital in a separate letter dated March 31, 2008.

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

Plante & Moran, PLLC

March 31, 2008



Mary Taylor, CPA
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 5, 2008