

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2009**



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, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 9, 2010

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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 basic 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, 2009 and 2008. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 basic 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, 2009 and 2008 and the changes in its financial position and its 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 basic 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 28, 2010 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 audits.

As described in Note 8 to the financial statements, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*, as of December 31, 2009.

Plante & Moran, PLLC

April 28, 2010

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, 2009, 2008, and 2007. 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 2009, total assets decreased \$46.7 million over 2008 levels. Other current assets decreased \$36.5 million mainly due to a decrease in securities lending of \$32.9 million (see below). Capital assets increased \$11.1 million due to the completion of construction related to the new Robinson Health Center at Streetsboro, the start of construction related to expanding the Hospital's operating room suites, and work on upgrading the Hospitals' phone system. Total cash and investments on hand at December 31, 2009 decreased \$18.6 million from December 31, 2008, mainly due to a decline in the 2008 bond project fund of \$10.4 million. Net accounts receivable decreased \$2.0 million. Net days' revenue in accounts receivable was 44.2 days at December 31, 2009, compared to 49.7 days at December 31, 2008 and 49.4 days at December 31, 2007.
- In 2008, total assets increased \$55.3 million over 2007 levels. Total cash and investments on hand at December 31, 2008 increased \$41.3 million over December 31, 2007. In 2008, the Hospital issued \$45.0 million in revenue bonds to fund certain capital asset additions. Included in assets whose use is limited at December 31, 2008 was \$35.0 million in unspent project funds. Net accounts receivable increased by \$1.1 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 \$25.3 million in 2009, \$58.2 million in 2008, and \$55.3 million in 2007.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

- In 2009, additions to property, plant, and equipment were \$21.7 million compared to \$19.7 million in 2008 and \$26.0 million in 2007. In 2009, the additions to property, plant, and equipment include completion of the Robinson Health Center at Streetsboro, which was opened in July 2009. Construction and equipment costs totaled approximately \$18.6 million, with approximately \$7.4 million incurred during 2009. The Hospital also renovated the kitchen to accommodate room service operations in 2009. The renovation costs totaled \$.7 million. Also in 2009, the Hospital began the construction of a surgical suite addition/renovation and a telephone system replacement project. Costs incurred on these projects at December 31, 2009 were \$5.1 million and \$1.9 million, respectively. The remaining \$7.3 million in additions relates to acquisitions of various clinical equipment and other building renovations.
- In 2008, the additions to property, plant, and equipment of \$19.7 million included construction in progress associated with the Robinson Health Center at Streetsboro, which opened in July 2009.
- 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 the Hospital's debt.
- In 2008, total liabilities increased \$45.1 million, current liabilities increased \$3.9 million, mainly due to securities lending programs, and long-term debt increased \$40.8 million primarily due to the issuance of new debt.
- Net cash provided by operating activities was \$9.5 million in 2009 versus \$13.5 million in 2008 and \$16.8 million in 2007.
- Operating income (loss) (excluding interest expense and income on investments) was approximately a \$3.1 million loss in 2009 compared to an operating income of approximately \$5.6 million in 2008 and \$4.8 million in 2007.

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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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.

The Hospital entered into an affiliation agreement with Summa Health System (Summa), which expires December 31, 2014, 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, to be paid by the Hospital to Summa. For the years ended December 31, 2009 and 2008, 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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Financial Analysis of the Hospital

Robinson Memorial Portage County Hospital's total net assets decreased by \$5.1 million to \$137.2 million at December 31, 2009 from \$142.3 million at December 31, 2008.

Table I provides a summary of the Hospital's total net assets at December 31, 2009 compared to December 31, 2008 and 2007.

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

	2009	2008	2007
Assets			
Cash and cash equivalents	\$ 8,593	\$ 5,379	\$ 8,171
Net accounts receivable	18,502	20,520	19,410
Other current assets	26,688	63,181	60,853
Assets limited as to use	103,613	125,410	81,775
Other assets	2,712	3,443	2,667
Capital assets	103,567	92,467	82,268
Total assets	<u><u>\$ 263,675</u></u>	<u><u>\$ 310,400</u></u>	<u><u>\$ 255,144</u></u>
Liabilities			
Current liabilities	\$ 43,326	\$ 79,813	\$ 75,866
Long-term debt	80,961	85,216	44,420
Other long-term liabilities	2,212	3,018	2,641
Total liabilities	126,499	168,047	122,927
Net Assets			
Unrestricted	90,030	100,382	93,020
Invested in capital assets - Net of related debt	43,933	38,715	35,752
Restricted	3,213	3,256	3,445
Total net assets	<u>137,176</u>	<u>142,353</u>	<u>132,217</u>
Total liabilities and net assets	<u><u>\$ 263,675</u></u>	<u><u>\$ 310,400</u></u>	<u><u>\$ 255,144</u></u>

In 2009, the Hospital's cash and investment position decreased \$18.7 million from 2008 and in 2008 increased \$41.3 million from 2007.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Accounts (amounts in thousands)

	2009	2008	2007
Operating cash	\$ 8,593	\$ 5,379	\$ 8,171
Assets limited as to use	78,261	89,698	81,775
Bond project fund	25,352	35,712	-
Trustee bond funds for current liabilities	712	863	452
Total cash and investments	<u>\$ 112,918</u>	<u>\$ 131,652</u>	<u>\$ 90,398</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 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. The increase in trustee funds from 2007 to 2008 is due to principal and interest on the 2008 revenue bonds.

Net Patient Accounts Receivable

Patient accounts receivable, net of an allowance for uncollectible accounts, decreased by \$2.0 million between December 31, 2008 and 2009 mainly due to increased cash collection efforts and an increase in the allowance for uncollectible accounts. Days in receivables decreased by 5.5 days. Patient accounts receivable, net of an allowance for uncollectible accounts, increased by \$1.1 million between December 31, 2007 and 2008 mainly due to increased net patient revenues.

Capital Assets

Capital assets increased from \$92.5 million in 2008 to \$103.6 million in 2009. The increase relates to \$21.7 million in net capital additions, offset partially by \$10.6 million in depreciation expense. Capital additions include primarily the completion of the Robinson Health Center at Streetsboro, construction in progress related to the expansion of the Hospital's operating room suites, and replacement of the Hospital's phone systems.

Capital assets increased from \$82.3 million in 2007 to \$92.5 million in 2008. The increase related to \$19.7 million in net capital additions, offset by \$9.5 million in depreciation expense. Capital additions include primarily the construction in progress related to the Robinson Health Center at Streetsboro, renovations to patient units, and various clinical equipment replacements and upgrades.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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

	2009	2008	2007	Covenant
Days cash on hand	184.60	218.00	216.40	100.00
Maximum debt service coverage	1.86	2.44	4.27	1.50
Historical debt service coverage	2.01	4.63	4.39	1.35
Cushion ratio	10.36	11.37	16.80	1.50

The decline in the maximum debt service coverage and the cushion ratio is due to new bonds issued in 2008 and negative operating results 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 2009 compared to 2008 and 2007.

Table 2
Revenue and Expenses (amounts in thousands)

	2009	2008	2007
Operating Revenue	\$ 144,111	\$ 146,770	\$ 141,375
Operating Expense	147,238	141,175	136,626
Operating (Loss) Income	(3,127)	5,595	4,749
Nonoperating Revenue (Expense)			
Investment and other income - Net	4,426	3,057	4,481
Interest expense	(3,467)	(2,597)	(2,277)
Change in net unrealized gains and losses	(3,324)	3,606	2,543
Total nonoperating (expense) revenue	(2,365)	4,066	4,747
Excess of Revenues (Under) Over Expenses	(5,492)	9,661	9,496
Gifts, Grants, Bequests, and Other	315	475	634
(Decrease) Increase in Net Assets	(5,177)	10,136	10,130
Net Assets - Beginning of year	142,353	132,217	122,087
Net Assets - End of year	\$ 137,176	\$ 142,353	\$ 132,217

Net Patient Service Revenue

Total operating revenue decreased \$2.7 million, or 1.8 percent, in 2009 as compared to 2008, and \$5.4 million, or 4.0 percent, in 2008 as compared to 2007.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Inpatient Business Activity

Total discharges in 2009 decreased by 324 discharges, or 3.8 percent, compared to 2008. For 2008, total discharges were 258, or 3.0 percent, below 2007 levels. Length of stay (LOS) for Hospital inpatients has also decreased slightly in 2009 as shown below:

		Discharges		
		2009	2008	2007
Medical/Surgical		5,025	5,278	5,728
Critical care		346	321	350
Step-down unit		1,818	1,889	1,609
Obstetrics		943	968	1,027
	Subtotal	8,132	8,456	8,714
Newborn		786	769	848
	Total	8,918	9,225	9,562

		Average Length of Stay		
		2009	2008	2007
Medical/Surgical		3.7	5.2	5.2
Critical care		2.5	2.4	2.4
Step-down unit		4.6	4.4	5.0
Obstetrics		2.1	2.3	2.3
Newborn		1.9	2.1	2.1

The decrease in inpatient admissions for 2009 and 2008 can be attributed mainly to decreases in internal medicine and family practice, cardiovascular, surgery, and OB/GYN.

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 6.7 percent (includes a 5.0 percent price increase) in 2009 after increasing 8.5 percent in 2008 and now accounts for 62.7 percent of patient revenue in 2009.

Areas that recorded the largest increase in revenue during 2009 were the Congestive Heart Failure Clinic at 70.1 percent, cardiology at 44.1 percent, nuclear medicine at 27.8, and cardiac catheterization at 26.3 percent.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Deductions from Revenue

Contractual service adjustments were 57.5 percent of gross revenues in 2009 versus 56.5 percent in 2008 and 56.1 percent in 2007. The increased percentages are due to the 5 percent price increases approved in 2009 and 2008 by the board of trustees which exceed increased reimbursements from Medicare and Medicaid.

Bad debt provision was \$12.4 million in 2009 versus \$7.3 million in 2008 and \$6.8 million in 2007.

Charity care for 2009 was \$16.6 million, an increase of \$.1 million or .6 percent over the \$16.5 million in 2008. In 2007, charity care was \$14.9 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 2009, the Hospital received \$1.3 million net from the Ohio Care Assurance Program, compared to \$1.6 million in 2008 and \$2.1 million in 2007.

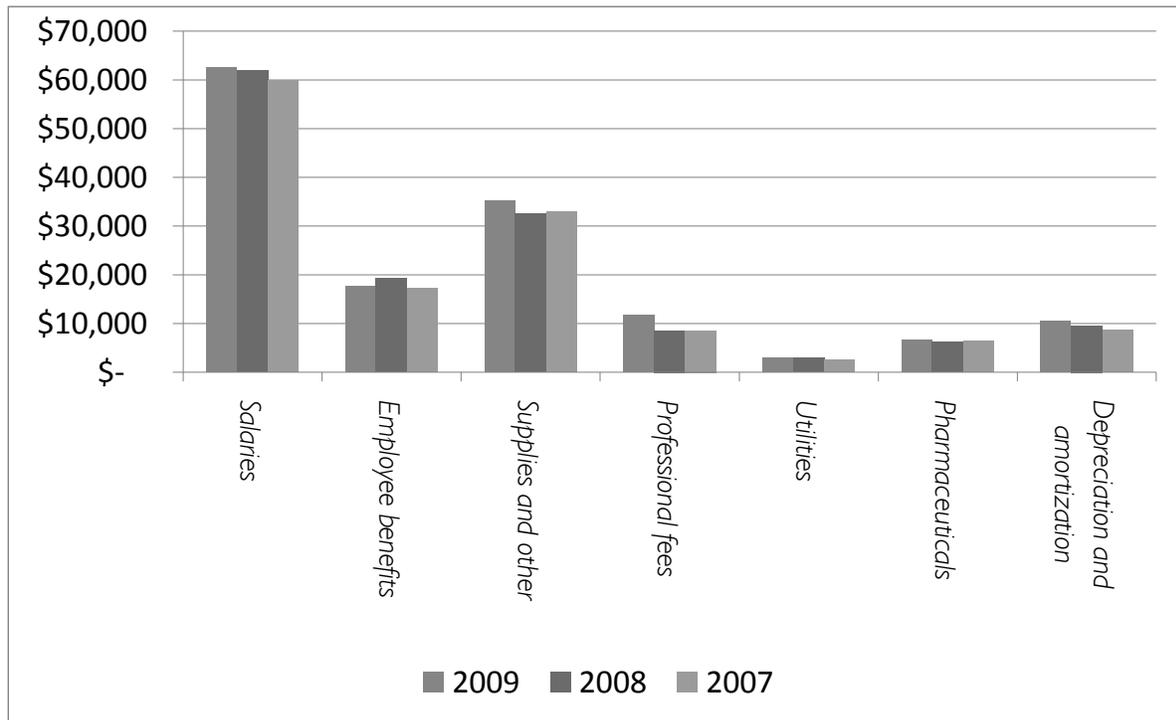
Operating Expenses

Total operating expenses in 2009 exceeded 2008 levels by \$6.1 million, or 4.3 percent, due to an increase in purchased services related to medical record transcription, radiation therapy services, purchased laboratory testing, \$.8 million in accessed Ohio Hospital Franchise Fees, and additional depreciation expense due to the opening of the Robinson Health Center in Streetsboro in July 2009. In 2008, total operating expenses were \$4.5 million, or 3.3 percent, higher than 2007 due to increased volumes and additional depreciation and utilities due to the opening of the Robinson Professional Center.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Operating Expense Comparison (amounts in thousands)



The largest percentage increases in operating expenses in 2009 over 2008 levels are reflected in professional services (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).

The major increases in 2008 over 2007 are in employee benefits (11.5 percent), depreciation (9.3 percent), and salaries (3.5 percent), offset by decreases in pharmaceuticals and supplies (3.5 percent) and other expenses (1.5 percent).

Salaries

Salaries increased \$.7 million, or 1.0 percent, in 2009 from 2008 levels, due mainly to wage increases of roughly 3.5 percent, offset by a reduction in FTEs. The number of full-time equivalent positions in 2009 was 1,256.1 versus 1,281.8 in 2008 and 1,282.2 in 2007.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Supply and Other Expenses

Supply and other expense cost increased \$2.6 million, or 8.1 percent, in 2009 over the 2008 level and includes approximately \$.8 million State of Ohio Hospital Franchise Fees. Supply and other expenses decreased \$.5 million, or 1.5 percent, in 2008 over the 2007 level.

Pharmaceuticals

Pharmaceuticals increased 6.3 percent in 2009 over 2008 levels due to increased volumes and use of higher priced chemotherapy drugs. For 2008, pharmaceutical costs decreased by 3.7 percent over 2007 levels due mainly to reduced volumes.

Utilities and Other

Utilities remained flat in 2009 as compared to 2008. In 2008, utilities increased by 14.4 percent attributed to the opening of the new Robinson Professional Center.

Depreciation and Amortization

Depreciation and amortization increased 10.6 percent in 2009 due to the opening of the Robinson Health Center at Streetsboro and various acquisitions of clinical equipment. In 2008, depreciation increased 9.3 percent as the Hospital began renovating inpatient rooms and opened the Robinson Professional Center.

Nonoperating Revenues and Expenses

Investment and Other Income

Investment and other income increased \$1.4 million in 2009 compared to 2008 due to increases in interest rates on investments.

Interest expense increased \$.9 million in 2009 due primarily to interest incurred on new debt issued October 2008 and increased variable interest rates associated with the 2005 bonds.

Unrealized gains on investments decreased \$6.9 million in 2009 due primarily to unfavorable changes in bond markets.

Investment and other income decreased \$1.4 million from 2008 to 2007 due primarily to the decline in interest rates on investments.

Unrealized gains on investments increased \$1.1 million in 2008 due primarily to favorable changes in bond markets.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The board of trustees approved the 2010 operating budget at its October 2009 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 and 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 \$138,000 and includes \$1.7 million in State of Ohio Hospital Franchise Fees. The 2010 operating budget projects \$3.6 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	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,593	\$ 5,379
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	712	863
Patient accounts receivable - Less allowance for estimated uncollectible accounts of approximately \$6,590,000 in 2009 and \$6,961,000 in 2008	18,502	20,520
Other current assets	<u>25,976</u>	<u>62,318</u>
Total current assets	53,783	89,080
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	103,613	125,410
Capital Assets - Net (Note 6)	103,567	92,467
Other Assets	<u>2,712</u>	<u>3,443</u>
Total assets	<u>\$ 263,675</u>	<u>\$ 310,400</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 4,025	\$ 4,248
Accounts payable	6,146	6,289
Accrued employee compensation	2,169	3,240
Compensated absences (Note 11)	3,154	3,611
Accrued expenses	3,775	4,075
Other current liabilities	<u>24,057</u>	<u>58,350</u>
Total current liabilities	43,326	79,813
Long-term Debt - Net of current portion (Note 7)	80,961	85,216
Self-insurance and Other Liabilities (Note 10)	<u>2,212</u>	<u>3,018</u>
Total liabilities	126,499	168,047
Net Assets		
Invested capital assets - Net of related debt	43,933	38,715
Restricted by donor for specific uses	3,213	3,256
Unrestricted	<u>90,030</u>	<u>100,382</u>
Total net assets	<u>137,176</u>	<u>142,353</u>
Total liabilities and net assets	<u>\$ 263,675</u>	<u>\$ 310,400</u>

Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2009	2008
Operating Revenue		
Net patient service revenue	\$ 139,352	\$ 142,796
Other	<u>4,758</u>	<u>3,974</u>
Total operating revenue	144,111	146,770
Operating Expenses		
Salaries and wages	62,667	62,017
Employee benefits	17,626	19,295
Supplies and other expenses	35,084	32,470
Professional services	11,710	8,612
Utilities	2,963	3,001
Pharmaceutical	6,597	6,205
Depreciation and amortization	<u>10,591</u>	<u>9,575</u>
Total operating expenses	<u>147,238</u>	<u>141,175</u>
Operating (Loss) Income	(3,127)	5,595
Nonoperating Revenue (Expenses)		
Investment and other income - Net	4,426	3,057
Interest expense	(3,467)	(2,597)
Changes in net unrealized gains and losses	<u>(3,324)</u>	<u>3,606</u>
Total nonoperating (expenses) revenue	<u>(2,365)</u>	<u>4,066</u>
Excess of Revenue (Under) Over Expenses	(5,492)	9,661
Gifts, Grants, Bequests, and Other	<u>315</u>	<u>475</u>
(Decrease) Increase in Net Assets	(5,177)	10,136
Net Assets - Beginning of year	<u>142,353</u>	<u>132,217</u>
Net Assets - End of year	<u><u>\$ 137,176</u></u>	<u><u>\$ 142,353</u></u>

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (amounts in thousands)

	Year Ended December 31	
	2009	2008
Cash Flows from Operating Activities		
Cash received from patients	\$ 142,808	\$ 141,112
Other cash receipts	4,758	3,974
Cash payments to suppliers	(56,261)	(50,715)
Cash payments to employees	(81,820)	(80,830)
Net cash provided by operating activities	9,485	13,541
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	315	475
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	45,000
Purchase of property	(21,666)	(19,725)
Principal paid on debt	(4,478)	(2,094)
Interest paid on debt	(3,577)	(2,572)
Net cash (used in) provided by capital and related financing activities	(29,721)	20,609
Cash Flows from Investing Activities		
Purchases of investments	(110,181)	(72,020)
Sale of investments	114,876	72,963
Investment and other income	4,426	3,057
Changes in assets limited as to use	14,014	(41,417)
Net cash provided by (used in) investing activities	23,135	(37,417)
Net Increase (Decrease) in Cash and Cash Equivalents	3,214	(2,792)
Cash and Cash Equivalents - Beginning of year	5,379	8,171
Cash and Cash Equivalents - End of year	\$ 8,593	\$ 5,379
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (3,127)	\$ 5,595
Adjustment to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	10,591	9,575
Provision for bad debts and other charges	12,442	7,301
Changes in assets and liabilities:		
Patient accounts receivable	(10,424)	(8,411)
Other current assets	36,342	(1,916)
Other assets	731	(776)
Accounts payable	(143)	526
Other current liabilities	(34,294)	2,324
Compensated absences and accrued employee compensation	(1,527)	483
Other liabilities and accrued expenses	(1,106)	(1,160)
Net cash provided by operating activities	\$ 9,485	\$ 13,541

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

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 \$58 and \$8 at December 31, 2009 and 2008, respectively.

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007 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, to be paid by the Hospital to Summa. In 2008 and 2009, 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, which will be recorded under the equity method. As of December 31, 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

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, 2009 and 2008, the Hospital has recorded an asset of \$809 and \$1,180, 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, 2009 and 2008 (amounts in thousands)

Note I - 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 ending December 31, 2010. The Hospital has decided to early adopt 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 accounting was an increase in other current assets and other current liabilities by \$2,768.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (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 revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues 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 \$362 and \$322 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008 (amounts in thousands)

Note I - 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 consists of amounts due from governmental programs, commercial insurance companies, private-pay patients, and other group insurance programs. Net patient service revenue from the Medicare program, including Medicare HMOs, accounted for approximately 34 percent and 33 percent of the Hospital's net patient service revenue for the years ended December 31, 2009 and 2008, respectively. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 7 percent and 6 percent for the years ended December 31, 2009 and 2008, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 14 percent and 16 percent for the years ended December 31, 2009 and 2008, 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 collectability of patient accounts receivable.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note I - 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 moveables	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, 2009 and 2008 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2009 and 2008 are as follows:

	2009	2008
Pledges due:		
In less than one year	\$ 21	\$ 140
In one to five years	316	250
Total	337	390
Allowance for doubtful pledges	(7)	(8)
Net	\$ 330	\$ 382

Reclassifications - Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 presentation.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 28, 2010, 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, 2009 and 2008 (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 at December 31, 2009 and 2008 totaled \$2,336 and \$2,257, respectively, and were subject to the following categories of custodial risk:

	2009	2008
Collateralized with securities held by the pledging institution's trust department	\$ 1,649	\$ 1,589
Amount insured	<u>687</u>	<u>668</u>
Total bank balances	<u>\$ 2,336</u>	<u>\$ 2,257</u>

Investments

As of December 31, 2009 and 2008, the fair value of the Hospital's investments was as follows:

	2009	2008
Cash and cash equivalents	\$ 2,073	\$ 2,051
Equities	2,005	1,200
U.S. government obligations	100,198	118,805
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	<u>6,732</u>	<u>6,662</u>
Total investments	<u>\$ 111,008</u>	<u>\$ 128,718</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2009 and 2008 were as follows:

	2009	2008
Deposits	\$ 1,910	\$ 2,934
Investments	<u>111,008</u>	<u>128,718</u>
Total deposits and investments	<u>\$ 112,918</u>	<u>\$ 131,652</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (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, 2009 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 \$25,285 and \$58,247 of collateral investments at December 31, 2009 and 2008, respectively.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2009 and 2008, the estimated charges forgone of providing charity care services and supplies were approximately \$16,584 and \$16,485, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (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 is scheduled for Ohio hospitals in 2010. The Hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (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:

	2009	2008
Board of trustees:		
Excess and funded depreciation	\$ 68,441	\$ 79,013
Self-insurance trust	4,685	6,087
Funds held by trustee under bond indenture	<u>26,063</u>	<u>36,576</u>
Total assets limited to use by board designation	99,189	121,676
By donor:		
Unrestricted	2,097	1,642
Restricted	<u>3,039</u>	<u>2,955</u>
Total by donor	<u>5,136</u>	<u>4,597</u>
Total assets limited as to use or restricted	104,325	126,273
Less assets limited as to use or restricted -		
Required for current liabilities	<u>712</u>	<u>863</u>
Total	<u>\$ 103,613</u>	<u>\$ 125,410</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, 2009 and 2008 (amounts in thousands)

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2009 and 2008:

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

During 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. At December 31, 2009, the remaining commitment on these contracts (including retainage) is \$8.4 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, 2009 and 2008 (amounts in thousands)

Note 6 - Capital Assets (Continued)

	2008			
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	\$ 10,270	\$ 142	\$ -	\$ 10,412
Construction in progress	13,367	11,120	(12,552)	11,935
Total capital assets not being depreciated	23,637	11,262	(12,552)	22,347
Capital assets being depreciated:				
Buildings	62,093	14,766	(24)	76,835
Fixed and movable equipment	102,888	6,283	(10)	109,161
Total capital assets being depreciated	164,981	21,049	(34)	185,996
Less accumulated depreciation	106,350	9,560	(34)	115,876
Total capital assets being depreciated - Net	58,631	11,489	-	70,120
Total capital assets - Net	\$ 82,268	\$ 22,751	\$ (12,552)	\$ 92,467

In 2008, the Hospital began the construction of a new medical office building located in Streetsboro (the Robinson Health Center at Streetsboro). Construction costs incurred during 2008 totaled \$11.2 million. In addition, the Hospital renovated the kitchen at a cost of approximately \$.7 million.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2009 and 2008 is as follows:

	2009	2008
Hospital Revenue Bonds, Series 2008, bearing interest at variable rates (.28 percent at December 31, 2009), and maturing in varying amounts through 2033	\$ 43,770	\$ 45,000
Hospital Revenue Bonds, Series 2005, bearing interest at variable rates (.65 percent at December 31, 2009), and maturing in varying amounts through 2022	28,265	30,145
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$124 and \$137 at December 31, 2009 and 2008, respectively, bearing interest at rates ranging from 5.50 percent to 5.75 percent, and maturing in varying amounts through 2019	12,951	13,898
Capital lease obligations	-	421
Total	84,986	89,464
Less current portion	4,025	4,248
Long-term portion	<u>\$ 80,961</u>	<u>\$ 85,216</u>

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

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 2009, the rates for the variable rate bonds ranged from .25 percent to .95 percent (average rate .44 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. Further, management is not aware of any events of default in connection with the Series 2005 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 Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

The Series 2005 Bonds bear interest at a variable rate. During 2009, the rates for the variable rate bonds ranged from 3.5 percent to .63 percent (average rate 1.43 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

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, 2009, the fair value of the bonds of approximately \$85,167 exceeded the carrying value of approximately \$85,110.

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, 2009 and 2008:

	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	421	-	(421)	-	-
Total		<u>\$ 89,464</u>	<u>\$ -</u>	<u>\$ (4,478)</u>	<u>\$ 84,986</u>	<u>\$ 4,025</u>
2008						
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2008	10/1/2008	\$ -	\$ 45,000	\$ -	\$ 45,000	\$ 1,020
Series 2005	8/18/2005	30,945	-	(800)	30,145	1,880
Series 1999	10/1/1999	14,801	-	(903)	13,898	960
Capital lease	12/28/2006	770	-	(349)	421	388
Total		<u>\$ 46,516</u>	<u>\$ 45,000</u>	<u>\$ (2,052)</u>	<u>\$ 89,464</u>	<u>\$ 4,248</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

The revenue bond payment requirements as of December 31, 2009 are as follows:

January 1	Principal	Interest	Total
2010	\$ 4,025	\$ 3,148	\$ 7,173
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
2015-2019	27,440	7,526	34,966
2020-2024	13,790	5,019	18,809
2025-2029	11,105	2,437	13,542
2030-2033	10,641	854	11,495
Total	\$ 84,986	\$ 29,953	\$ 114,939

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 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 .88 percent (average of .31 percent) in 2009.

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 .16 percent to .34 percent (average rate of .23 percent) in 2009.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 8 - Interest Rate Swap Agreements (Continued)

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

Swap Type	Maturity Date	Hospital Pays	Hospital Receives	At December 31, 2009		Credit Rating
				National Value	Fair Value	
Fixed	11/1/2022	3.17%	67% of one-month LIBOR	\$ 28,265	\$ (1,394)	Baa1/BBB+/A-
Fixed	9/1/2033	3.47%	68% of one-month LIBOR	<u>20,000</u>	<u>(1,374)</u>	Aa1/A+/AA-
				<u>\$ 48,265</u>	<u>\$ (2,768)</u>	

The Governmental Accounting Standards Board recently released Statement Number 53, *Accounting for Derivative Instruments*. The new pronouncement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions in the financial statements.

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, 2009 and 2008 (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 \$8,127 in 2009, \$8,008 in 2008, and \$7,636 in 2007. Employer contributions represented 14.0 percent of covered payroll in 2009 and 2008. Employee contributions were \$5,805 in 2009 and \$5,720 in 2008, representing 10.0 percent of covered payroll in 2009 and 2008, were consistent across all three plans (TP, MD, and CO), and are actuarially determined. From January 1, 2009 to March 31, 2009, approximately 93 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. From April 1, 2009 to December 31, 2009, approximately 94.5 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 2008, 93 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

Note 9 - Employee Benefit Plans (Continued)

Robinson Memorial Portage County Hospital's payroll for employees covered by PERS for the years ended December 31, 2009 and 2008 was approximately \$58,050 and \$57,200, respectively. The Hospital's total payroll was approximately \$62,667 in 2009 and \$62,017 in 2008.

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.

PERS does not make separate measurements of assets and accrued liabilities for individual employers. At December 31, 2008, 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 are presented below:

Accrued postretirement healthcare liability	\$ 29,600
Net assets available for benefits	<u>10,700</u>
Unfunded actuarial accrued liability	<u>\$ 18,900</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, 2009 was 357,584. Of the total required Hospital contribution, 7.0 percent from January 1, 2009 to March 31, 2009 and 5.5 percent from April 1, 2009 to December 31, 2009 was actually made to fund postretirement healthcare benefits.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

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 and 3.0 percent, respectively, for 2009 and 2008. The change in the liability for self-insurance is as follows:

	2009	2008
Beginning balance	\$ 3,018	\$ 2,641
Provision for self-insurance	522	377
Claims paid and other	(1,328)	-
Ending balance	\$ 2,212	\$ 3,018

For the years ended December 31, 2009 and 2008, 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.

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, 2009 and 2008, the liability for unpaid compensated absences was \$3,154 and \$3,611, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2009 and 2008 (amounts in thousands)

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 \$1,275 and \$1,550 in 2009 and 2008, 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 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, 2009 and have issued our report thereon dated April 28, 2010. 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. However, we identified a deficiency in internal control over financial reporting as that we consider to be a significant deficiency in internal control over financial reporting as discussed below. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Finding Type – Significant deficiency

Criteria – Accounting principles generally accepted in the United State of America require that a liability and an expense be recognized in the period in which the service was provided or assets were received and placed into service.

Condition – The Hospital had improperly recorded accounts payable at December 31, 2009.

Context – During our testing, we noted that the Hospital had four invoices, out of the 30 selected that were improperly excluded from accounts payable at December 31, 2009.

Cause and Effect - The current policy of the Hospital is to record an estimated miscellaneous accrual after the books have been closed to account for any payables that may exist that have not be identified. The Hospital also reviews invoices received subsequent to year end for the proper period and if significant management will record an accrual.

Recommendation – The Hospital should review the current practice and policy for recording accounts payable during the close process. Management should consider extending the cutoff period and/or lowering the threshold to allow for a more thorough review of invoices during the close process to ensure all items are properly recorded in accounts payable at year end.

Views of Responsible Officials and Planned Corrective Actions – The management of Robinson Memorial Portage County Hospital understands the importance of maintaining appropriate month end and year end cutoffs and accurately recording potential liabilities. Hospital management will review invoices received after the closing of the financial records on an annual basis and if appropriate, will re-open the general ledger to record significant construction in progress invoices, or other previously unestimated liabilities.

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 28, 2010



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 22, 2010**