

# **Robinson Memorial Portage County Hospital and Affiliates**

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**Financial Report  
December 31, 2013**





# Dave Yost • Auditor of State

Board of Trustees  
Robinson Memorial Portage County Hospital and Affiliates  
6847 North Chestnut Street  
Ravenna, OH 44266-1204

We have reviewed the *Independent Auditor's Report* of the Robinson Memorial Portage County Hospital and Affiliates, Portage County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

September 5, 2014

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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

### **Report on the Financial Statements**

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, 2013 and 2012, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### ***Opinions***

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, 2013 and 2012 and the changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, in 2013 the Hospital adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

The accompanying basic financial statements have been prepared assuming that Robinson Memorial Portage County Hospital and Affiliates will continue as a going concern. As discussed in Note 14 to the basic financial statements, the Hospital has suffered recurring losses and has not met forbearance agreement requirements, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2014 on our consideration of Robinson Memorial Portage County Hospital and Affiliates' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Robinson Memorial Portage County Hospital and Affiliates' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

July 21, 2014

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **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, 2013, 2012, and 2011. 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 note disclosures along with management's discussion and analysis.

### **Overview of the Financial Statements**

This annual report consists of financial statements and notes to those financial 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, Ohio (the "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.

On November 13, 2012, the Board of County Commissioners approved the conversion of the Hospital from a county hospital to a private nonprofit corporation through lease of existing hospital facilities known as Robinson Memorial Hospital to a newly created entity named Robinson Health System, Inc. (RHS). The lease commencement date would become effective 90 days after RHS is granted exemption from taxation by the Internal Revenue Service (IRS) as a nonprofit Section 501(c)(3) organization. RHS received its IRS exemption from taxation letter on September 30, 2013 and the conversion to a nonprofit Section 501(c)(3) organization was effective on January 1, 2014. The original lease agreement was amended December 31, 2013 and supports the effective start date for RHS as of January 1, 2014.

# **Robinson Memorial Portage County Hospital and Affiliates**

## **Management's Discussion and Analysis (Continued)**

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 statement of financial position 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) effective January 1, 2007, which was renewed in 2010 and expired on December 31, 2013.

The affiliation agreement included an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2013 and 2012, the Hospital incurred costs related to the affiliation fee of \$50,000 per year. This affiliation agreement was not renewed by the Hospital.

The statement of financial position, statement of revenue, expenses, and changes in net position, and statement of cash flows provide an indication of the Hospital's financial results. The statement of financial position includes the Hospital's assets and liabilities, using the accrual basis of accounting. The statement of revenue, expenses, and changes in net position 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 position decreased by \$16.4 million to \$115.9 million at December 31, 2013 from \$132.3 million at December 31, 2012.

In 2013, total assets and deferred outflows of resources decreased by \$19.4 million from 2012 levels. In 2012, total assets and deferred outflows of resources decreased \$19.5 million from 2011 levels.

In 2013, other current assets increased \$9.1 million mainly due to increases in securities lending of \$6.6 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 \$8.3 million in 2013, \$1.8 million in 2012, and \$11.6 million in 2011.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Management's Discussion and Analysis (Continued)**

In 2013, total liabilities and deferred inflows of resources decreased \$3.0 million and current liabilities increased \$64.0 million, as the Hospital was not in compliance with the debt service coverage ratios for each of the quarters or at year end. The Hospital obtained waivers and/or entered into bond forbearance agreements with the banks that hold and/or provide the letter of credit backing the debt. The bond forbearance agreement expires in July 2014, and requires all outstanding debt to be classified as current liabilities; conversely, long-term debt decreased \$59.9 million and deferred inflows decreased \$7.0 million.

In 2012, total liabilities and deferred inflows of resources decreased \$13.0 million, current liabilities decreased \$10.1 million, mainly due to securities lending programs, and long-term debt decreased \$2.8 million due to principal payments made on Hospital debt.

# Robinson Memorial Portage County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

Table I provides a summary of the Hospital's total net position at December 31, 2013 compared to December 31, 2012 and 2011.

**Table I**  
**Assets, Deferred Outflows of Resources, Liabilities,**  
**Deferred Inflows of Resources, and Net Position**  
**(amounts in thousands)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 7,849	\$ 7,669	\$ 8,896
Net accounts receivable	16,943	15,018	18,300
Other current assets	16,810	7,740	17,555
Assets limited as to use	37,942	57,958	60,569
Other assets	3,176	3,568	2,157
Capital assets	<u>119,480</u>	<u>123,137</u>	<u>126,985</u>
Total assets	202,200	215,090	234,462
Deferred outflows of resources	<u>1,636</u>	<u>8,134</u>	<u>8,296</u>
Total assets and deferred outflows of resources	<u><b>\$ 203,836</b></u>	<u><b>\$ 223,224</b></u>	<u><b>\$ 242,758</b></u>
<b>Liabilities:</b>			
Current liabilities	\$ 84,627	\$ 20,631	\$ 30,739
Long-term debt	-	59,915	62,715
Other long-term liabilities	<u>1,671</u>	<u>1,771</u>	<u>2,141</u>
Total liabilities	86,298	82,317	95,595
Deferred inflows of resources	<u>1,636</u>	<u>8,600</u>	<u>8,296</u>
Total liabilities and deferred inflows of resources	87,934	90,917	103,891
<b>Net position:</b>			
Unrestricted	52,459	69,239	69,414
Net investment in capital assets	60,125	59,908	66,417
Restricted	<u>3,318</u>	<u>3,160</u>	<u>3,036</u>
Total net position	<u>115,902</u>	<u>132,307</u>	<u>138,867</u>
Total liabilities, deferred inflows of resources, and net position	<u><b>\$ 203,836</b></u>	<u><b>\$ 223,224</b></u>	<u><b>\$ 242,758</b></u>

# Robinson Memorial Portage County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

In 2013, the Hospital's cash and investment position decreased by \$20.3 million from 2012 and in 2012 decreased by \$3.5 million from 2011.

### Cash and Investment Accounts (amounts in thousands)

	2013	2012	2011
Operating cash	\$ 7,849	\$ 7,669	\$ 8,896
Assets limited as to use	37,942	57,958	55,839
Bond project fund	-	-	4,730
Trustee bond funds for current liabilities	560	1,029	682
Total cash and investments	<u>\$ 46,351</u>	<u>\$ 66,656</u>	<u>\$ 70,147</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 assets limited as to use from 2012 to 2013 is due to funding costs related to additions to the electronic medical record system of \$14.1 million and the termination of 2008 and 2012 swap agreements.

The decrease in bond project funds from 2011 to 2013 is due to the funding of fixed asset additions of \$9.5 million from the remaining proceeds of the 2008 revenue bonds, approximately \$4.7 million, with the remainder, approximately \$4.8 million, funded from excess operating funds.

Net cash used by operating activities in 2013 was \$3.4 million, versus net cash provided by operating activities of \$10.0 million \$11.8 million in 2012 and 2011, respectively.

### Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased by \$1.9 million between December 31, 2012 and 2013. Days in receivables increased by 6.8 days. Patient accounts receivable, net of allowance for uncollectibles, decreased by \$3.3 million between December 2011 and 2012, mainly due to an increase in the allowance for uncollectibles and several cash collection improvements in the billing department. Days in receivables decreased by 6.3 days.

### Capital Assets

Capital assets decreased from \$123.1 million in 2012 to \$119.5 million in 2013. The decrease relates to \$9.8 million in net capital additions, offset by \$13.4 million in depreciation expense. Capital assets decreased from \$127 million in 2011 to \$123.1 million in 2012. The decrease relates to \$9.4 million in net capital additions, offset by \$13.3 million in depreciation expense.

# Robinson Memorial Portage County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

### Capital Additions (amounts in thousands)

	2013	2012	2011
Operating room suites expansion/renovation	\$ -	\$ -	\$ 3,100
Laparoscopy and endoscopy equipment	1,241	-	-
Energy management project	-	-	5,900
Electronic medical record/CPOE	5,583	6,398	901
Routine replacement	2,925	3,081	13,499
Total	<u>\$ 9,749</u>	<u>\$ 9,479</u>	<u>\$ 23,400</u>

### Debt Administration

The Hospital has agreed to maintain certain bond covenant ratios on a quarterly and 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. The Hospital was not in compliance with the debt service coverage ratios for each of the quarters or at year end. The Hospital obtained waivers and/or entered into bond forbearance agreements with the banks that hold and/or provide the letter of credit backing the debt. These agreements included the following: i) The banks would refrain from exercising their various rights and remedies under the original bond and/or letter of credit agreements, and ii) the agreements amended the financial covenants related to debt service coverage and/or days cash on hand for the quarters ended September 30, 2013, December 31, 2013, and March 31, 2014. The latest forbearance agreement extends the above waivers through July 31, 2014.

# 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 2013 compared to 2012 and 2011.

**Table 2**  
**Revenue and Expenses (amounts in thousands)**

	2013	2012	2011
<b>Operating Revenue</b>	\$ 134,410	\$ 143,279	\$ 148,435
<b>Operating Expenses</b>	<u>147,089</u>	<u>148,602</u>	<u>150,198</u>
<b>Operating Loss</b>	(12,679)	(5,323)	(1,763)
<b>Nonoperating Expense</b>	<u>(4,419)</u>	<u>(1,776)</u>	<u>(1,047)</u>
<b>Excess of Revenue Under Expenses</b>	(17,098)	(7,099)	(2,810)
<b>Gifts, Grants, Bequests, and Other</b>	693	539	393
<b>Change in Accounting Principle - GASB 65</b>	<u>-</u>	<u>-</u>	<u>(1,351)</u>
<b>Decrease in Net Position</b>	(16,405)	(6,560)	(3,768)
<b>Net Position - Beginning of year</b>	<u>132,307</u>	<u>138,867</u>	<u>142,635</u>
<b>Net Position - End of year</b>	<u><u>\$ 115,902</u></u>	<u><u>\$ 132,307</u></u>	<u><u>\$ 138,867</u></u>

### Net Patient Service Revenue

Total operating revenue decreased \$8.9 million, or 6.2 percent, in 2013 as compared to 2012 and decreased \$5.2 million, or 3.5 percent, in 2012 as compared to 2011.

# Robinson Memorial Portage County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

### Inpatient Business Activity

Total discharges in 2013 decreased by 1,192, or 14.8 percent, compared to 2012. For 2012, total discharges decreased by 939 discharges, or 10.4 percent, compared to 2011.

Length of stay (LOS) for Hospital inpatients, primarily step-down patients, has increased slightly in 2013 as shown below:

		Discharges		
		2013	2012	2011
Medical/Surgical		3,418	4,493	4,431
Critical care		865	362	1,320
Step-down unit		1,172	1,769	1,722
Obstetrics		725	751	809
	Subtotal	6,180	7,375	8,282
Newborn		700	697	729
	Total	<b>6,880</b>	<b>8,072</b>	<b>9,011</b>

		Average Length of Stay (Days)		
		2013	2012	2011
Medical/Surgical		4.4	4.2	4.4
Critical care		2.9	2.8	2.8
Step-down unit		5.4	5.2	4.9
Obstetrics		2.3	2.3	2.2
Newborn		2.0	2.1	2.0

### Outpatient Business Activity

The Hospital's outpatient gross revenue increased 4.0 percent (includes 10.0 percent price increase) in 2013 after increasing 4.6 percent (includes 10.0 percent price increase) in 2012. Outpatient gross revenue accounts for 66.9 percent, 64.1 percent, and 62.4 percent of patient revenue in 2013, 2012, and 2011, respectively.

### Deductions from Revenue

Contractual service adjustments were 65.7 percent of gross revenue in 2013 versus 63.6 percent and 60.8 percent of gross revenue in 2012 and 2011, respectively. The increased percentages are due to the 10 percent price increases approved in 2013 and 2012 by the board of trustees, which exceed increased reimbursements from Medicare, Medicaid, and other contracted payors.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Management's Discussion and Analysis (Continued)**

The bad debt provision was \$12.5 million in 2013 versus \$12.2 million for 2012 and \$12.5 million for 2011.

Charity care for 2013 was \$19.0 million, a decrease of \$1.9 million, or 9.1 percent, from \$20.9 million in 2012. In 2011, charity care was \$21.6 million. The State of Ohio developed a program in the late 1980s designed to help hospitals address the increasing number of low-income, special-needs 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 2013, the Hospital received \$1.6 million net from the Ohio Care Assurance Program compared to \$1.3 million in 2012 and \$1.3 million in 2011.

### **Operating Expenses**

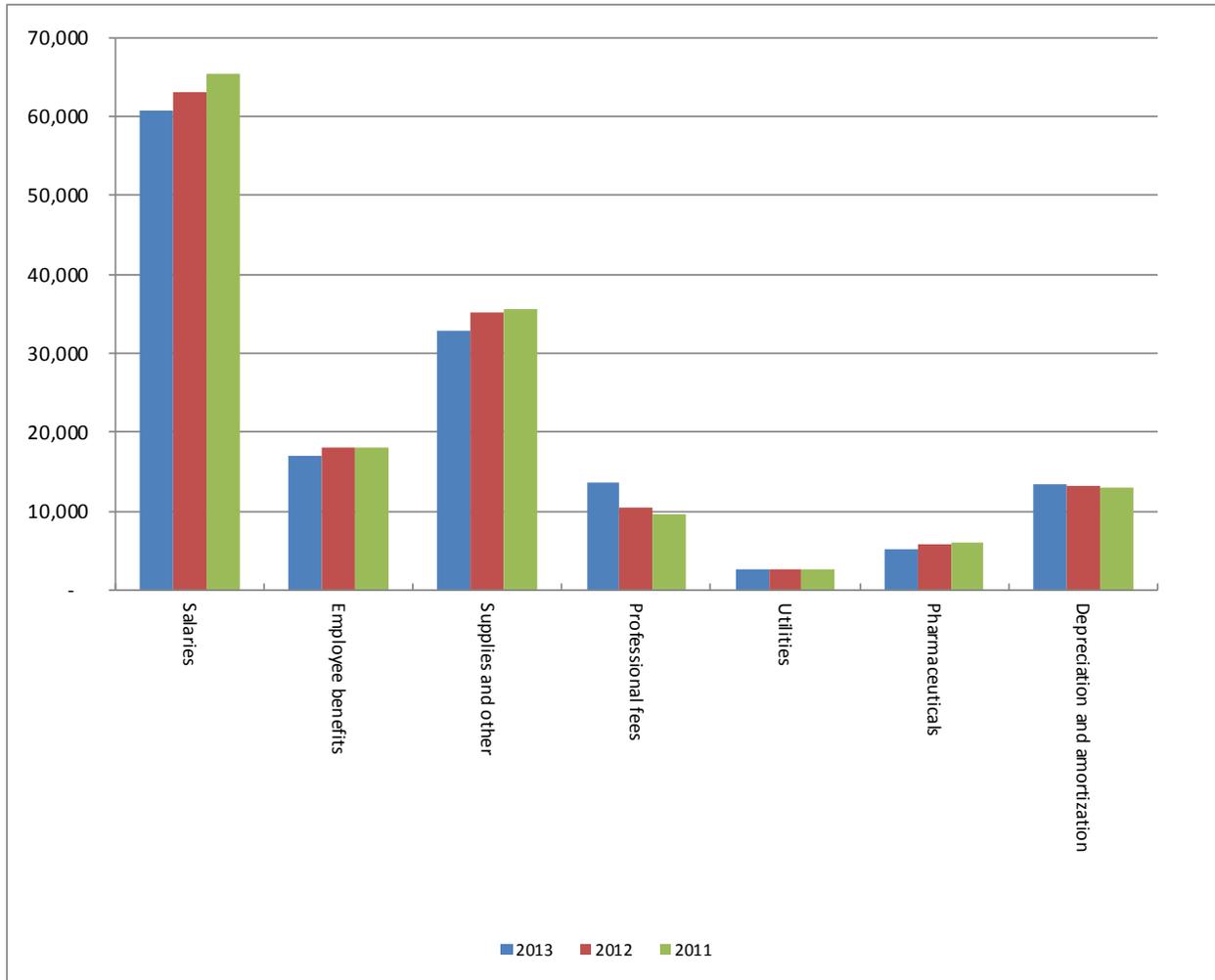
Total operating expenses in 2013 were \$147.1 million, slightly lower than 2012 levels, mainly due to decreases in salaries and wages of \$2.1 million, pharmaceuticals of \$0.6 million, and supplies and other expenses of \$3.8 million, offset by increases in professional fees of \$4.7 million, as it was discovered that the Hospital was out of compliance on some physician-related contracts and has recorded a liability of approximately \$4 million to satisfy any self-disclosure to the appropriate governmental body and related settlement that would occur in 2014. The amount related to the penalties was recorded as nonoperating expense.

Total operating expenses in 2012 were \$148.6 million, 1.1 percent lower than 2011 levels, mainly due to decreases in salaries and wages of \$2.4 million and supplies and other expenses of \$0.4 million, offset by increases in professional fees of \$0.9 million and depreciation of \$0.3 million.

# Robinson Memorial Portage County Hospital and Affiliates

## Management’s Discussion and Analysis (Continued)

### Operating Expense Comparison (amounts in thousands)



The largest percentage decreases in operating expenses in 2013 over 2012 levels are reflected in pharmaceuticals (10.4 percent) and employee benefits (6.3 percent).

The largest percentage decreases in operating expenses in 2012 over 2011 levels are reflected in salaries and wages (3.7 percent) and utilities (2.1 percent).

### Salaries

Salaries decreased \$2.1 million, or 3.4 percent, in 2013 from 2012 levels, due mainly to the lower inpatient and outpatient volumes experienced in 2013 and a decrease in FTEs of approximately 83.5. The number of full-time equivalent positions in 2013 was 1,131.4 versus 1,214.9 in 2012 and 1,239.2 in 2011. The decrease in FTEs in 2013 was mainly due to attrition.

# Robinson Memorial Portage County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

### Supplies and Other Expenses

Supplies and other expenses decreased by 10.9 percent in 2013 as compared to 2012 and include approximately \$2.1 million in State of Ohio Hospital Franchise Fees. Supplies and other expenses remained flat in 2012 as compared to 2011 and include approximately \$1.6 million in State of Ohio Hospital Franchise Fees.

### Pharmaceuticals

Pharmaceuticals expense decreased 10.4 percent in 2013 as compared to 2012 and also 2011.

### Utilities

Utilities expense decreased 2.6 percent in 2013 as compared to 2012. Utilities expense remained flat in 2012 from 2011 levels, primarily due to reductions in electrical and water/sewer costs.

### Depreciation and Amortization

Depreciation and amortization increased 1.1 percent in 2013, as the Hospital made various acquisitions of clinical equipment and due to the full year impact of 2012 capital expenditures related to implementing the electronic medical record. In 2012, depreciation and amortization increased 2.6 percent, as the Hospital made various acquisitions of clinical equipment and due to the full year impact of 2011 capital expenditures.

### Nonoperating Revenue and Expenses (in thousands)

	2013	2012	2011
Investment and other income - Net	\$ 474	\$ 679	\$ 2,004
Termination of interest rate swap agreement	(2,198)	-	-
Interest expense	(2,476)	(2,333)	(2,950)
Change in net unrealized gains and losses	(219)	(122)	(101)
Total	<u>\$ (4,419)</u>	<u>\$ (1,776)</u>	<u>\$ (1,047)</u>

### Investment and Other Income

Investment and other income decreased \$0.2 million in 2013 compared to 2012 due to the funding of capital asset acquisitions, offset by higher interest rates. Investment and other income decreased \$1.3 million in 2012 compared to 2011 due to lower interest rates.

Interest expense increased by 6.0 percent due to increased swap interest due to the poor financial results experienced in 2012.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Management's Discussion and Analysis (Continued)**

Unrealized losses on investments increased significantly, on a percentage basis (80 percent) and are due to sluggish fixed-income rates experienced in all three years.

### **Economic Factors and Next Year's Budget**

The board of trustees approved the 2014 operating budget at its January 2013 meeting. This budget was developed after a review of key volume indicators and trends seen at the Hospital and at other hospitals in northeast Ohio. 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 2014 operating budget represents a "business as usual" approach and does not factor in any additional revenues or expenses associated with a new partner organization.

The budget for the Hospital provides for an operating loss of \$7.6 million.

### **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

## Statement of Financial Position (amounts in thousands)

	December 31	
	2013	2012
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 7,849	\$ 7,669
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	560	1,029
Patient accounts receivable - Less allowance for uncollectible accounts of approximately \$8,884 in 2013 and \$7,988 in 2012	16,943	15,018
Other current assets	16,250	6,711
Total current assets	41,602	30,427
<b>Noncurrent Assets Limited as to Use or Restricted</b> (Notes 2 and 5)	37,942	57,958
<b>Capital Assets - Net</b> (Note 6)	119,480	123,137
<b>Other Assets</b>	3,176	3,568
Total assets	202,200	215,090
<b>Deferred Outflows of Resources</b> - Interest rate swap agreement (Note 8)	1,636	8,134
Total assets and deferred outflows of resources	<u>\$ 203,836</u>	<u>\$ 223,224</u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 59,915	\$ 3,400
Accounts payable	9,826	7,413
Accrued employee compensation	1,700	2,183
Compensated absences (Note 11)	2,464	3,239
Accrued expenses	2,377	2,642
Other current liabilities	8,345	1,754
Total current liabilities	84,627	20,631
<b>Long-term Debt</b> - Net of current portion (Note 7)	-	59,915
<b>Self-insurance Liabilities</b> (Note 10)	1,671	1,771
Total liabilities	86,298	82,317
<b>Deferred Inflows of Resources</b> - Interest rate swap agreement (Note 8)	1,636	8,600
Total liabilities and deferred inflows of resources	87,934	90,917
<b>Net Position</b>		
Net investment in capital assets	60,125	59,908
Restricted by donor for specific uses	3,318	3,160
Unrestricted	52,459	69,239
Total net position	115,902	132,307
Total liabilities, deferred inflows of resources, and net position	<u>\$ 203,836</u>	<u>\$ 223,224</u>

# Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2013	2012
<b>Operating Revenue</b>		
Net patient service revenue	\$ 126,374	\$ 137,534
Other	8,036	5,745
Total operating revenue	134,410	143,279
<b>Operating Expenses</b>		
Salaries and wages	60,833	62,968
Employee benefits	16,936	18,077
Supplies and other expenses	31,366	35,186
Professional services	15,219	10,541
Utilities	2,585	2,654
Pharmaceuticals	5,290	5,903
Depreciation and amortization	13,420	13,273
Other charges - EMR implementation	1,440	-
Total operating expenses	147,089	148,602
<b>Operating Loss</b>	(12,679)	(5,323)
<b>Nonoperating Revenue (Expenses)</b>		
Investment and other income - Net	474	679
Termination of interest rate swap agreement	(2,198)	-
Interest expense	(2,476)	(2,333)
Changes in net unrealized losses	(219)	(122)
Total nonoperating expenses	(4,419)	(1,776)
<b>Excess of Revenue Under Expenses</b>	(17,098)	(7,099)
<b>Gifts, Grants, Bequests, and Other</b>	693	539
<b>Decrease in Net Position</b>	(16,405)	(6,560)
<b>Net Position - Beginning of year (as restated)</b>	132,307	138,867
<b>Net Position - End of year (as restated)</b>	<u>\$ 115,902</u>	<u>\$ 132,307</u>

# Robinson Memorial Portage County Hospital and Affiliates

## Statement of Cash Flows (amounts in thousands)

	Year Ended December 31	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Cash received from patients	\$ 121,722	\$ 139,550
Other cash receipts	8,036	5,745
Cash payments to suppliers	(54,147)	(54,105)
Cash payments to employees	(79,027)	(81,222)
Net cash (used in) provided by operating activities	(3,416)	9,968
<b>Cash Flows from Noncapital Financing Activities</b> - Gifts, grants, and bequests received	693	539
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of long-term debt	-	41,050
Proceeds from termination of interest rate swap	398	-
Purchase of property - Net	(9,763)	(9,425)
Paid on termination of interest rate swap	(3,062)	-
Principal paid on debt	(3,400)	(43,715)
Interest paid on debt	(2,476)	(2,465)
Net cash used in capital and related financing activities	(18,303)	(14,555)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(74,310)	(97,319)
Sale of investments	94,419	90,341
Investment and other income	474	679
Changes in assets limited as to use	623	9,120
Net cash provided by investing activities	21,206	2,821
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	180	(1,227)
<b>Cash and Cash Equivalents</b> - Beginning of year	7,669	8,896
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 7,849</u>	<u>\$ 7,669</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (12,679)	\$ (5,323)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	13,420	13,273
Provision for bad debts	12,457	12,189
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Patient accounts receivable	(14,382)	(8,907)
Other current assets	(9,539)	10,162
Other assets	392	(1,279)
Deferred outflows of resources	6,498	162
Accounts payable	2,413	913
Other current liabilities and estimated amounts due to third-party payors	6,591	(11,003)
Compensated absences and accrued employee compensation	(1,258)	(177)
Other liabilities and accrued expenses	(365)	(346)
Deferred inflows of resources	(6,964)	304
Net cash (used in) provided by operating activities	<u>\$ (3,416)</u>	<u>\$ 9,968</u>

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity** - Robinson Memorial Portage County Hospital and Affiliates (the "Hospital"), a component unit of Portage County, Ohio 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 and 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.

On November 13, 2012, the Board of County Commissioners approved the conversion of the Hospital from a county hospital to a private nonprofit corporation through a lease of existing hospital facilities known as Robinson Memorial Hospital to a newly created entity named Robinson Health System, Inc. (RHS). RHS received its IRS exemption from taxation letter on September 30, 2013 and the conversion to a nonprofit Section 501(c)(3) organization was effective on January 1, 2014.

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 statement of financial position in other assets and amounted to \$132 at December 31, 2013 and 2012.

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007, which was renewed in 2010 and expired December 31, 2013. The affiliation agreement includes an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2013 and 2012, the Hospital incurred costs related to the affiliation fee of \$50,000. This affiliation agreement was not renewed by the Hospital.

# Robinson Memorial Portage County Hospital and Affiliates

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## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 1 - Summary of Significant Accounting Policies (Continued)

The affiliation agreement also provides for a nonprofit joint operating company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital's 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, 2013 and 2012, Summa Robinson Health Ventures had no assets or activity. The Hospital and Summa have dissolved Summa Robinson Health Ventures at December 31, 2013.

The Hospital entered into a 10-year affiliation agreement with Akron General Medical Center (AGMC) that 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 has 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, 2013 and 2012, the Hospital has recorded an asset of \$1,634 and \$2,214, respectively, equal to the investment in RROC. The Hospital has given written notice of its intent to renew this affiliation agreement for an additional six months subsequent to its current expiration date of June 30, 2014.

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.

**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**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Enterprise Fund 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 on 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) requires that all derivatives be recorded on the balance sheet at their respective fair value. Changes in fair value are recognized either in net position or deferred outflows and deferred inflows of resources, depending on the nature of the underlying exposure being hedged and whether the derivatives are effective or ineffective. The Hospital has derivative instruments that are deemed effective at December 31, 2013 and effective and ineffective at December 31, 2012.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

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

**Net Patient Service Revenue** - Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

**Classification of Net Position** - Net position of the Hospital is classified in three components (1) net investment in capital assets, which consists of capital assets net of accumulated depreciation and reduced by any outstanding borrowing used to finance the purchase or construction of those assets; (2) restricted expendable assets, which represent noncapital net position 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 position, which is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable assets.

**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 an expense of \$11 in 2013 and income of \$115 in 2012. 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**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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

**Noncurrent Assets Limited as to Use or Restricted** - Investments set aside for board-designated purposes for future capital improvements, or limited by financing, insurance, or other similar arrangements, are considered to be assets limited as to use.

**Concentrations of Credit Risk** - Financial instruments, which potentially subject the Hospital to concentrations of credit risk, consist principally of cash and cash equivalents and patient accounts receivable.

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

The Hospital's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consist of amounts due from governmental programs, commercial insurance companies, private-pay patients, and other group insurance programs. Net patient service revenue from the Medicare program, including Medicare HMOs, accounted for approximately 31 and 33 percent of the Hospital's net patient service revenue for the years ended December 31, 2013 and 2012, respectively. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 7 and 6 percent for the years ended December 31, 2013 and 2012, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 15 and 14 percent for the years ended December 31, 2013 and 2012, respectively. Excluding Medicare and Medical Mutual of Ohio, no other payor source represents more than 10 percent of the Hospital's net patient revenue. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

# Robinson Memorial Portage County Hospital and Affiliates

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## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

**Capital Assets** - Capital assets are stated at cost. Capital assets are defined as assets with initial individual costs greater than \$3,000. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives using the straight-line method. Expenditures, which substantially increase the useful lives of existing assets, are capitalized. Routine maintenance and repairs are expensed as incurred. Useful lives are as follows:

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

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

# Robinson Memorial Portage County Hospital and Affiliates

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## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Electronic Health Records Incentive Payments** - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Hospital may receive an incentive payment for up to four years, provided the Hospital demonstrates meaningful use of certified EHR technology for the EHR reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the Hospital will comply with eligibility requirements during the EHR reporting period and an incentive payment will be received. The amounts are recorded within other operating revenue, as the incentive payments are related to the Hospital's ongoing and central activities yet not critical to the delivery of patient service.

During 2013, the Hospital attested to Centers for Medicare and Medicaid Services (CMS) that it had met the first year of EHR reporting periods related to the first stage of meaningful use. As such, the incentive payments were recognized as income within other operating revenues in the amount of \$3.1 million.

**Adoption of New Accounting Pronouncements** - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. GASB Statement No. 63 is effective for the Hospital for the year ended December 31, 2012 and as such the Hospital's derivatives have been reflected as deferred outflows or inflows of resources and the Hospital has reflected a change in terminology from "net assets" to "net position."

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The Hospital implemented GASB Statement No. 65 and as such the Hospital's bond issue costs, of \$1,219 as recorded in other assets, and amortization of bond issuance costs reflected in interest expense of \$132 were written off for 2012. The effect of the restated net position for 2012 was as follows:

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 1 - Summary of Significant Accounting Policies (Continued)

Net position, as previously reported at January 1, 2012	\$140,218
Less effect of change in accounting as a result of implementing GASB Statement No. 65	<u>(1,351)</u>
Net position, as restated	<u>\$138,867</u>

**Upcoming Accounting Change** - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The provisions of this statement are effective for financial statements for the year ending December 31, 2014. The Hospital will no longer be a public entity beginning January 1, 2014 and has chosen not to early adopt the provisions of GASB Statement No. 68.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including July 21, 2014 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.

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, 2013 and 2012 are subject to the following categories of custodial risk (amounts in thousands):

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 2 - Deposits and Investments (Continued)

	<u>2013</u>	<u>2012</u>
Collateralized with securities held by the pledging institution's trust department	\$ 8,681	\$ 6,161
Amount insured	<u>770</u>	<u>770</u>
Total bank balances	<u>\$ 9,451</u>	<u>\$ 6,931</u>

### Investments

As of December 31, 2013 and 2012, the fair value of the Hospital's investments was as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 358	\$ 683
Equities	2,204	2,197
U.S. government obligations	26,456	46,187
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	<u>8,550</u>	<u>9,067</u>
Total investments	<u>\$ 37,568</u>	<u>\$ 58,134</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Deposits	\$ 8,783	\$ 8,522
Investments	<u>37,568</u>	<u>58,134</u>
Total deposits and investments	<u>\$ 46,351</u>	<u>\$ 66,656</u>

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

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 2 - Deposits and Investments (Continued)**

**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, 2013 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 \$8,345 and \$1,754 of collateral investments at December 31, 2013 and 2012, respectively.

### **Note 3 - Charity Care**

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2013 and 2012, the estimated charges forgone for providing charity care services and supplies were approximately \$19,035 and \$20,943, 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.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 4 - Net Patient Service Revenue (Continued)**

Program examinations of cost reports have been finalized for the Medicare and Medicaid programs through 2009. 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, except as disclosed in Note 13.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2009. The Hospital is unable to determine the extent of future audits and is unable to determine the extent of liability for overpayments, if any.

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (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:

	2013	2012
Board of trustees:		
Excess and funded depreciation	\$ 29,963	\$ 47,790
Self-insurance trust	1,928	4,605
Funds held by trustee under bond indenture	<u>560</u>	<u>1,029</u>
Total assets limited to use by board designation	32,451	53,424
By donor:		
Unrestricted	2,344	2,187
Restricted	<u>3,707</u>	<u>3,376</u>
Total by donor	<u>6,051</u>	<u>5,563</u>
Total assets limited as to use or restricted	38,502	58,987
Less assets limited as to use or restricted - Required for current liabilities	<u>560</u>	<u>1,029</u>
Total	<u><u>\$ 37,942</u></u>	<u><u>\$ 57,958</u></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, 2013 and 2012 (amounts in thousands)

### Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2013 and 2012:

	2013			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 10,669	\$ -	\$ -	\$ 10,669
Construction in progress	9,921	5,690	(14,151)	1,460
Total capital assets not being depreciated	20,590	5,690	(14,151)	12,129
Capital assets being depreciated:				
Buildings	119,849	320	-	120,169
Fixed and movable equipment	140,775	18,109	(758)	158,126
Total capital assets being depreciated	260,624	18,429	(758)	278,295
Less accumulated depreciation	158,077	13,405	(538)	170,944
Total capital assets being depreciated - Net	102,547	5,024	(220)	107,351
Total capital assets - Net	\$ 123,137	\$ 10,714	\$ (14,371)	\$ 119,480

During 2013, the Hospital completed the implementation of an electronic medical record (EMR) system. Costs in 2013 associated with the EMR system were \$5.6 million. The Hospital also purchased laparoscopy and endoscopy equipment totaling \$1.2 million with the additional costs of \$2.9 million to acquire routine capital equipment.

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 6 - Capital Assets (Continued)

	2012			
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	\$ 10,669	\$ -	\$ -	\$ 10,669
Construction in progress	3,523	6,398	-	9,921
Total capital assets not being depreciated	14,192	6,398	-	20,590
Capital assets being depreciated:				
Buildings	111,585	568	7,696	119,849
Fixed and movable equipment	146,168	2,513	(7,906)	140,775
Total capital assets being depreciated	257,753	3,081	(210)	260,624
Less accumulated depreciation	144,960	13,273	(156)	158,077
Total capital assets being depreciated - Net	112,793	(10,192)	(54)	102,547
Total capital assets - Net	\$ 126,985	\$ (3,794)	\$ (54)	\$ 123,137

During 2012, the Hospital continued implementing an electronic medical record (EMR) system. Costs associated with the EMR system in 2012 were \$6.4 million.

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Hospital Revenue Bonds Series 2012, bearing interest at variable rates (1.84 percent at December 31, 2013), and maturing in varying amounts from 2014 to 2033	\$ 39,845	\$ 41,050
Hospital Revenue Bonds Series 2011, bearing interest at variable rates (2.07 percent at December 31, 2013), and maturing in varying amounts from 2015 to 2018	9,400	9,400
Hospital Revenue Bonds Series 2010, bearing interest at variable rates (2.07 percent at December 31, 2013), and maturing in varying amounts from 2019 to 2022	7,710	7,710
Hospital Revenue Bond, Series 2005, bearing interest at variable rates (0.21 percent at December 31, 2013), and maturing in varying amounts through 2015	<u>2,960</u>	<u>5,155</u>
Total	59,915	63,315
Less current portion	<u>59,915</u>	<u>3,400</u>
Long-term portion	<u>\$ -</u>	<u>\$ 59,915</u>

The Hospital Revenue Bonds Series 2012 (Series 2012 Bonds) were issued by the County of Portage, Ohio in 2012 via a private placement for the purpose of refunding \$41.605 million of the Series 2008 bonds. The Series 2012 bonds bear interest at a variable rate reset monthly based on a percent of LIBOR multiplied by the tax rate of the private placement bank. The debt was issued September 17, 2012 and bore an initial rate of 1.31 percent. The bonds are secured by the gross revenue of the Hospital.

The Hospital Revenue Bonds Series 2011 (Series 2011 Bonds) were issued by the County of Portage, Ohio in 2011 via a private placement for the purpose of refunding \$9.375 million of the Series 2005 Bonds. The Series 2011 Bonds bear interest at a variable rate reset monthly based on a percent of LIBOR multiplied by the tax rate of the private placement bank. The debt was issued on February 1, 2011 and bore an initial rate of 1.50 percent. The bonds are secured by the gross revenue of the Hospital.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 7 - Long-term Debt (Continued)**

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

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. Subsequent to year end, the 2005 Bonds were defeased and therefore, the Hospital does not intend to extend the letter of credit or enter into an alternative letter of credit and the bonds are considered short-term.

The Series 2005 Bonds bear interest at a variable rate and during 2013, the rates for the variable rate bonds ranged from .20 to .37 percent (average rate .24 percent). The bonds are secured by the gross revenue of the Hospital.

At December 31, 2013, the fair value and carrying value of all the Hospital's bonds was approximately \$59,915.

The Hospital is also required to meet certain covenants relating to the above bonds including debt service coverage, days cash on hand, and capitalization ratios. The Hospital was not in compliance with the debt service coverage ratios for each of the quarters or at year end 2013. The Hospital obtained forbearance agreements with the banks that hold and/or provide the letter of credit backing the debt. These agreements contained the following provisions: i) The banks would refrain from exercising their various rights and remedies under the original bond and/or letter of credit agreements, ii) the agreements amended the financial covenants related to debt service coverage and/or days cash on hand for the quarters ended September 30, 2013, December 31, 2013, March 31, 2014, and June 30, 2014, and iii) a provision required that an agreement acceptable to the banks would be signed by May 31, 2014 with another healthcare system partner. If these conditions are not met, the bank would have the option to provide the Hospital with a waiver or the option to call the bonds. Since the forbearance agreements expire July 31, 2014, all bonds are considered short-term.

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 7 - Long-term Debt (Continued)

The following tables summarize the outstanding long-term debt as of December 31, 2013 and 2012:

		2013				
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2012	9/17/2012	\$ 41,050	\$ -	\$ (1,205)	\$ 39,845	\$ 39,845
Series 2011	2/1/2011	9,400	-	-	9,400	9,400
Series 2010	12/30/2010	7,710	-	-	7,710	7,710
Series 2005	8/18/2005	5,155	-	(2,195)	2,960	2,960
Total		<u>\$ 63,315</u>	<u>\$ -</u>	<u>\$ (3,400)</u>	<u>\$ 59,915</u>	<u>\$ 59,915</u>

		2012				
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2012	9/17/2012	\$ -	\$ 41,050	\$ -	\$ 41,050	\$ 1,205
Series 2011	2/1/2011	9,400	-	-	9,400	-
Series 2010	12/30/2010	7,710	-	-	7,710	-
Series 2008	10/1/2008	41,605	-	(41,605)	0	0
Series 2005	8/18/2005	7,265	-	(2,110)	5,155	2,195
Total		<u>\$ 65,980</u>	<u>\$ 41,050</u>	<u>\$ (43,715)</u>	<u>\$ 63,315</u>	<u>\$ 3,400</u>

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 7 - Long-term Debt (Continued)

The revenue bond payment requirements as of December 31, 2013 are as follows:

<u>January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,640	\$ 1,924	\$ 5,564
2015	3,785	1,640	5,425
2016	3,940	1,497	5,437
2017	4,095	1,332	5,427
2018	4,285	1,162	5,447
2019-2023	16,355	3,486	19,841
2024-2028	10,635	1,765	12,400
2029-2033	13,180	687	13,867
Total	<u>\$ 59,915</u>	<u>\$ 13,493</u>	<u>\$ 73,408</u>

### Note 8 - Interest Rate Swap Agreements

On September 20, 2012, the Hospital entered into a fixed-rate swap agreement on \$21,050 of the Series 2012 bonds for a period of 13 years. Under the fixed-rate swap agreement, the Hospital pays a fixed rate of 2.565 percent and receives a floating rate equal to 74 percent of the USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate received ranged from 1.282 to 1.305 percent (average of 1.273 percent) in 2013 and 1.304 to 1.306 percent (average of 1.305 percent) in 2012. On October 1, 2013, the Hospital terminated this swap and recorded a nonoperating gain on termination of \$397.

On August 11, 2008, the Hospital entered into a fixed-rate swap agreement on \$20,000 of the Series 2008 bonds for a period of 25 years. Under the fixed-rate swap agreement, the Hospital pays a fixed rate of 3.47 percent and receives a floating rate equal to 68 percent of the USD one-month London Interbank Offered Rate (LIBOR). Effective November 1, 2012, certain terms of the original swap were amended, including but not limited to amending the floating rate to 74 percent of LIBOR, plus 1.147 percent floating rate and an increase of the fixed rate payable by the Hospital from 3.47 to 4.792 percent. The swap rate received ranged from 1.282 to 1.305 percent (average of 1.273 percent) in 2013 and 1.304 to 1.306 percent (average of 1.305 percent) in 2012. On October 8, 2013 the Hospital terminated this swap and recorded a nonoperating loss on termination of \$2,595.

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 8 - Interest Rate Swap Agreements (Continued)

On July 22, 2005, the Hospital entered into a fixed-rate swap agreement on \$32,455 of the Series 2005 bonds for a period of 17 years. Under the fixed-rate swap agreement, the Hospital pays a fixed rate of 3.17 percent and receives a floating rate equal to 67 percent of the USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate received ranged from .11 to .14 percent (an average of .13 percent) in 2013.

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

Swap Type	Maturity Date	Hospital Pays	Hospital Receives	At December 31, 2013		Credit Rating
				Notional Value	Fair Value	
Fixed	11/1/2022	3.17%	67% of one-month LIBOR	<u>\$ 19,070</u>	<u>\$ (1,636)</u>	A3/A-/A-
Swap Type	Maturity Date	Hospital Pays	Hospital Receives	At December 31, 2012		Credit Rating
				Notional Value	Fair Value	
Fixed	11/1/2022	3.17%	67% of one-month LIBOR	\$ 22,165	\$ (2,607)	A3/A-/A-
Fixed	9/1/2025	2.57%	74% of one-month LIBOR	21,050	(214)	A3/A-/A-
Fixed	9/1/2033	4.79%	74% of one-month LIBOR	<u>20,000</u>	<u>(5,313)</u>	Aa3/A+/A+
				<u>\$ 63,215</u>	<u>\$ (8,134)</u>	

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 8 - Interest Rate Swap Agreements (Continued)**

**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. The Hospital's credit rating fell below the Aa Moody's rating in December 2013. Collateral accounts were set up at both banks and each account was funded by the Hospital at \$1,737 in January 2014.

**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.

**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 swap has been designated as an effective swap. Accordingly, any change in the swap fair value is recorded as a change in deferred outflows and deferred inflows of resources.

### **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.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 9 - Employee Benefit Plans (Continued)**

Total required employer contributions made were \$7,598 in 2013, \$7,855 in 2012, and \$8,198 in 2011. Employer contributions represented 14.0 percent of covered payroll in 2013, 2012, and 2011. Employee contributions were \$5,427 in 2013, \$5,611 in 2012, and \$5,856 in 2011, representing 10.0 percent of covered payroll in 2013, 2012, and 2011, and were consistent across all three plans (TP, MD, and CO) and are actuarially determined.

Robinson Memorial Portage County Hospital's payroll for employees covered by OPERS for the years ended December 31, 2013 and 2012 was approximately \$54,270 and \$56,109, respectively. The Hospital's total payroll was approximately \$60,833 in 2013 and \$62,968 in 2012.

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

The portion of employer contributions allocated to healthcare for members in the Traditional Plan was 1.0 percent for 2013. The portion of employer contributions allocated to healthcare for members in the combined plan was 1.0 percent for 2012. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS actuary.

### **Note 10 - Medical Malpractice Claims**

The Hospital is self-insured for medical malpractice claims, subject to certain limitations. Accordingly, the provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Potential losses from asserted and unasserted claims are accrued based on actuarially determined estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of the claim or incident and relevant trend factors. These amounts are recorded at the estimated present value using a discount rate of 4.0 percent for 2013 and 2012. The change in the liability for self-insurance is as follows (amounts in thousands):

# Robinson Memorial Portage County Hospital and Affiliates

## Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)

### Note 10 - Medical Malpractice Claims (Continued)

	2013	2012
Beginning balance	\$ 1,771	\$ 2,141
Provision for self-insurance	(39)	(370)
Claims paid and other	(61)	-
Ending balance	<u>\$ 1,671</u>	<u>\$ 1,771</u>

The Hospital's self-insured retention limits for the years ended December 31, 2013 and 2012 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 sick leave balances (up to a maximum of 240 hours) are paid at varying rates depending on length of service. At December 31, 2013, the remaining balance in unused sick time for employees who were eligible to retire under OPERS was written off as a credit to salary and wages expense. As of December 31, 2013 and 2012, the liability for unpaid compensated absences was \$2,464 and \$3,239, respectively.

### Note 12 - Care Assurance

The Hospital participates in the State of Ohio's Care Assurance Program, which was established in 1988 to assist hospitals that had a disproportionate amount of uncompensated care. Under the program, Ohio hospitals, including the Hospital, are assessed an amount which forms a pool of funds to be matched with federal Medicaid funds for payments to hospitals. Total net revenue to the Hospital under the Care Assurance Program aggregated approximately \$1,596 and \$1,339 in 2013 and 2012, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

# **Robinson Memorial Portage County Hospital and Affiliates**

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## **Notes to Financial Statements December 31, 2013 and 2012 (amounts in thousands)**

### **Note 13 - Contingent Liabilities**

It was discovered that the Hospital was out of compliance on some physician-related contracts and has recorded a liability for approximately \$4 million to satisfy any self disclosure to the appropriate governmental body and related settlement that would occur. The Hospital recorded a portion as a reduction to net patient revenue and the amount related to penalties was recorded as an operating expense.

### **Note 14 - Management Plans**

In January 2014, the Hospital entered into a non-binding letter of intent (LOI) with a larger health care system to become a full member of that system via a member substitution. As due diligence continued, it was evident that the original terms of the LOI could not be met. Therefore, the original LOI was revoked and a new LOI was presented to the Hospital, which contained certain conditions. As of this time, the LOI is pending approval with the Hospital board of directors.

In the meantime, due to the Hospital's inability to satisfy the financial covenants contained in the bank bond purchase agreements, the Hospital and banks have entered into a new forbearance agreement through July 31, 2014, which includes the requirement to retain a consultant, acceptable to the banks, to assess the financial and operational condition of the Hospital, provide recommendations to improve financial performance, and evaluate strategic alternatives for the Hospital. The consultant report is due to Hospital and banks later in July 2014.

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*

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of Robinson Memorial Portage County Hospital and Affiliates (the "Hospital"), which comprise the statement of financial position as of December 31, 2013 and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated July 21, 2014. As discussed in Note I to the financial statements, in 2013 the Hospital adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

The accompanying basic financial statements have been prepared assuming that Robinson Memorial Portage County Hospital and Affiliates will continue as a going concern. As discussed in Note 14 to the basic financial statements, the Hospital has suffered recurring losses and has not met forbearance agreement requirements, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Robinson Memorial Portage County Hospital and Affiliates internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

*Plante & Morse, PLLC*

July 21, 2014

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# Dave Yost • Auditor of State

**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL AND AFFILIATES**

**PORTAGE COUNTY**

## **CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 18, 2014**