

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2008**



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, 2008 through December 31, 2008. 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

May 7, 2009

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Robinson Memorial Portage County Hospital and Affiliates

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-13
Financial Statements	
Balance Sheet	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Notes to Financial Statements	17-37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39



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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, 2008 and 2007. 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, 2008 and 2007 and the changes in 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 1, 2009 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

April 1, 2009

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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, 2008, 2007, and 2006. 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 2008, total assets increased \$55.3 million over 2007 levels. Capital assets increased \$10.2 million due to construction of the new Robinson Health Center at Streetsboro. Total cash and investments on hand at December 31, 2008 increased \$41.7 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 is \$35 million in unspent project funds. Net accounts receivable increased \$1.1 million. Net days' revenue in accounts receivable were 49.7 days at December 31, 2008, compared to 49.4 days at December 31, 2007 and 51.0 days at December 31, 2006.
- In 2007, total assets increased \$27.3 million over 2006 levels. Total cash and investments on hand at December 31, 2007 decreased \$6.1 million over December 31, 2006. Net accounts receivable increased by \$834,000.
- 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 \$58.2 million in 2008, \$55.3 million in 2007, and \$40.1 million in 2006.
- In 2008, additions to property, plant, and equipment were \$19.7 million compared to \$26.0 million in 2007 and \$10.4 million in 2006. In 2008, the additions to property, plant, and equipment include \$11.1 million of construction in progress associated with the Robinson Health Center at Streetsboro, which is scheduled to open in July 2009.
- In 2007, the additions to property, plant, and equipment of \$26.0 million included construction in progress associated with the Robinson Professional Center, which opened in January 2008.
- In 2008, total liabilities increased \$45.1 million, current liabilities increased \$2.9 million, mainly due to securities lending programs, and long-term debt increased \$40.1 million due primarily to the issuance of new debt.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

- In 2007, total liabilities increased \$17.1 million, current liabilities increased \$19.6 million, mainly due to securities lending programs, and long-term debt decreased \$2.2 million due to payment of principal.
- Net cash provided by operating activities was \$13.5 million in 2008 versus \$16.8 million in 2007 and \$10.8 million in 2006.
- Operating income (excluding interest expense and income on investments) was approximately \$5.6 million in 2008 compared to an operating income of approximately \$4.8 million in 2007 and \$8.2 million in 2006.

Overview of the Financial Statements

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

Robinson Memorial Portage County Hospital and Affiliates, a component unit of Portage County, is organized as a county hospital under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation.

While the County is empowered to appropriate money from its General Fund, from certain state and federal monies it receives, and, with the approval of the electorate, levy property taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no county appropriations for its operations.

The board of Hospital trustees, appointed by the board of county commissioners and the senior probate and common pleas judges, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide healthcare services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

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

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007 to provide improved quality of, and access to, 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, 2008 and 2007, respectively, the Hospital did not incur any cost related to the affiliation fee.

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

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

Financial Analysis of the Hospital

Robinson Memorial Portage County Hospital's total net assets increased by \$10.1 million to \$142.4 million at December 31, 2008 from \$132.2 million at December 31, 2007.

Table I provides a summary of the Hospital's total net assets at December 31, 2008 compared to December 31, 2007 and 2006.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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

	2008	2007	2006
Assets			
Cash and cash equivalents	\$ 5,781	\$ 8,171	\$ 7,110
Net accounts receivable	20,520	19,410	18,576
Other current assets	63,181	60,853	45,598
Assets limited as to use	125,008	81,775	88,957
Other assets	3,443	2,667	2,579
Capital assets	92,467	82,268	65,043
Total assets	<u>\$ 310,400</u>	<u>\$ 255,144</u>	<u>\$ 227,863</u>
Liabilities			
Current liabilities	\$ 79,813	\$ 75,866	\$ 56,245
Long-term debt	85,216	44,420	46,597
Other long-term liabilities	3,018	2,641	2,934
Total liabilities	168,047	122,927	105,776
Net Assets			
Unrestricted	100,382	93,020	102,569
Invested in capital assets - Net of related debt	38,715	35,752	16,341
Restricted	3,256	3,445	3,177
Total net assets	142,353	132,217	122,087
Total liabilities and net assets	<u>\$ 310,400</u>	<u>\$ 255,144</u>	<u>\$ 227,863</u>

In 2008, the Hospital's cash and investment position increased \$41.7 million from 2007 and in 2007 decreased \$6.1 million from 2006.

Accounts (amounts in thousands)

	2008	2007	2006
Operating cash	\$ 5,781	\$ 8,171	\$ 7,110
Assets limited as to use	125,008	81,775	88,957
Trustee bond funds for current liabilities	863	452	1,149
Total cash and investments	<u>\$ 131,652</u>	<u>\$ 90,398</u>	<u>\$ 97,216</u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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 increase in trustee funds from 2007 to 2008 is due to principal and interest on the 2008 revenue bonds. The decrease in trustee bond funds from 2006 to 2007 is due to capital expenditures which were funded from the 2005 Bonds.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased by \$1.1 million between December 31, 2007 and 2008 mainly due to increased net patient service revenue. Days in receivables increased by .3 days. Patient accounts receivable, net of allowance for uncollectibles, increased by \$834,000 between December 31, 2006 and 2007 and patient days decreased by 1.6 days.

Capital Assets

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

Capital assets increased from \$65.0 million in 2006 to \$82.3 million in 2007. The increase related to \$26.0 million in net capital additions, offset by \$8.7 million in depreciation expense. Capital additions include primarily the construction in progress related to the Robinson Professional Center, MIS file server replacements, and various clinical equipment replacements and upgrades.

Debt Administration

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

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Ratios

	2008	2007	2006	Covenant
Days cash on hand	221.50	216.40	238.60	100.00
Maximum debt service coverage	2.44	4.27	4.27	1.50
Historical debt service coverage	4.63	4.39	5.37	1.35
Cushion ratio	11.37	16.80	17.98	1.50

The decline in maximum debt service coverage and cushion ratio are due to new bonds issued in 2008.

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2008 compared to 2007 and 2006.

Table 2
Revenue and Expenses (amounts in thousands)

	2008	2007	2006
Operating Revenue	\$ 146,770	\$ 141,375	\$ 138,413
Operating Expense	141,175	136,626	130,205
Operating Income	5,595	4,749	8,208
Nonoperating Revenue (Expense)			
Investment and other income - Net	3,057	4,481	4,065
Interest expense	(2,597)	(2,277)	(2,261)
Change in net unrealized gains and losses	3,606	2,543	118
Total nonoperating revenue	4,066	4,747	1,922
Excess of Revenues Over Expenses	9,661	9,496	10,130
Gifts, Grants, Bequests, and Other	475	634	740
Increase in Net Assets	10,136	10,130	10,870
Net Assets - Beginning of year	132,217	122,087	111,217
Net Assets - End of year	<u>\$ 142,353</u>	<u>\$ 132,217</u>	<u>\$ 122,087</u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Net Patient Service Revenue

Total operating revenues increased \$5.4 million, or 4.0 percent, in 2008 as compared to 2007 and \$3.0 million, or 2.1 percent, in 2007 as compared to 2006.

In 2008, inpatient days were lower by 1,487 days or 3.9 percent compared to 2007 levels.

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

Inpatient Business Activity

Total admissions in 2008 decreased 3.6 percent. In 2007, admissions were .6 percent higher than 2006. Total patient days (excluding newborns) decreased by 1,289 days in 2008 and increased 1,001 days in 2007 from 2006. Length of stay (LOS) for Hospital inpatients has decreased slightly in 2008 as shown below:

		Patient Days		
		2008	2007	2006
Medical/Surgical		21,016	22,436	21,659
Critical care		4,037	3,941	3,720
Step Down Unit		8,327	8,080	8,330
Obstetrics		2,127	2,339	2,149
	Subtotal	35,507	36,796	35,858
Newborn		1,576	1,774	1,483
	Total	37,083	38,570	37,341

		Average Length of Stay		
		2008	2007	2006
Medical/Surgical		5.2	5.2	5.2
Critical care		2.4	2.4	2.2
Step Down Unit		4.4	5.0	4.1
Obstetrics		2.3	2.3	2.3
Newborn		2.1	2.1	2.1

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

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

The increase in inpatient admissions in 2007 can be attributed mainly to OB/GYN and orthopedics. Other changes in adult medical/surgical areas are impacted by the implementation of a hospitalist program in 2006.

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 8.5 percent (includes 5.0 percent price increase), in 2008 after increasing 6.5 percent in 2007 and now accounts for 61.2 percent of patient revenue in 2008.

Areas that recorded the largest increase in revenue during 2008 were the emergency department at 13.6 percent, laboratory at 9.3 percent, and endoscopy suites at 100.0 percent.

Deductions from Revenue

Contractual service adjustments were 56.5 percent of gross revenues in 2008 versus 56.1 percent in 2007 and 53.5 percent in 2006. The increased percentages are due to the 5 percent price increases approved in 2008 and 2007 by the board of trustees which exceed increased reimbursements from Medicare and Medicaid.

Bad debt provision was \$7.3 million in 2008 vs. \$6.8 million for 2007 and \$6.2 million for 2006.

Charity care for 2008 was \$16.5 million, an increase of \$1.6 million or 10.7 percent over the \$14.9 million in 2007. In 2006, charity care was \$13.7 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 2008, the Hospital received \$1.6 million net from the Ohio Care Assurance Program, compared to \$2.1 million in 2007 and \$1.6 million in 2006.

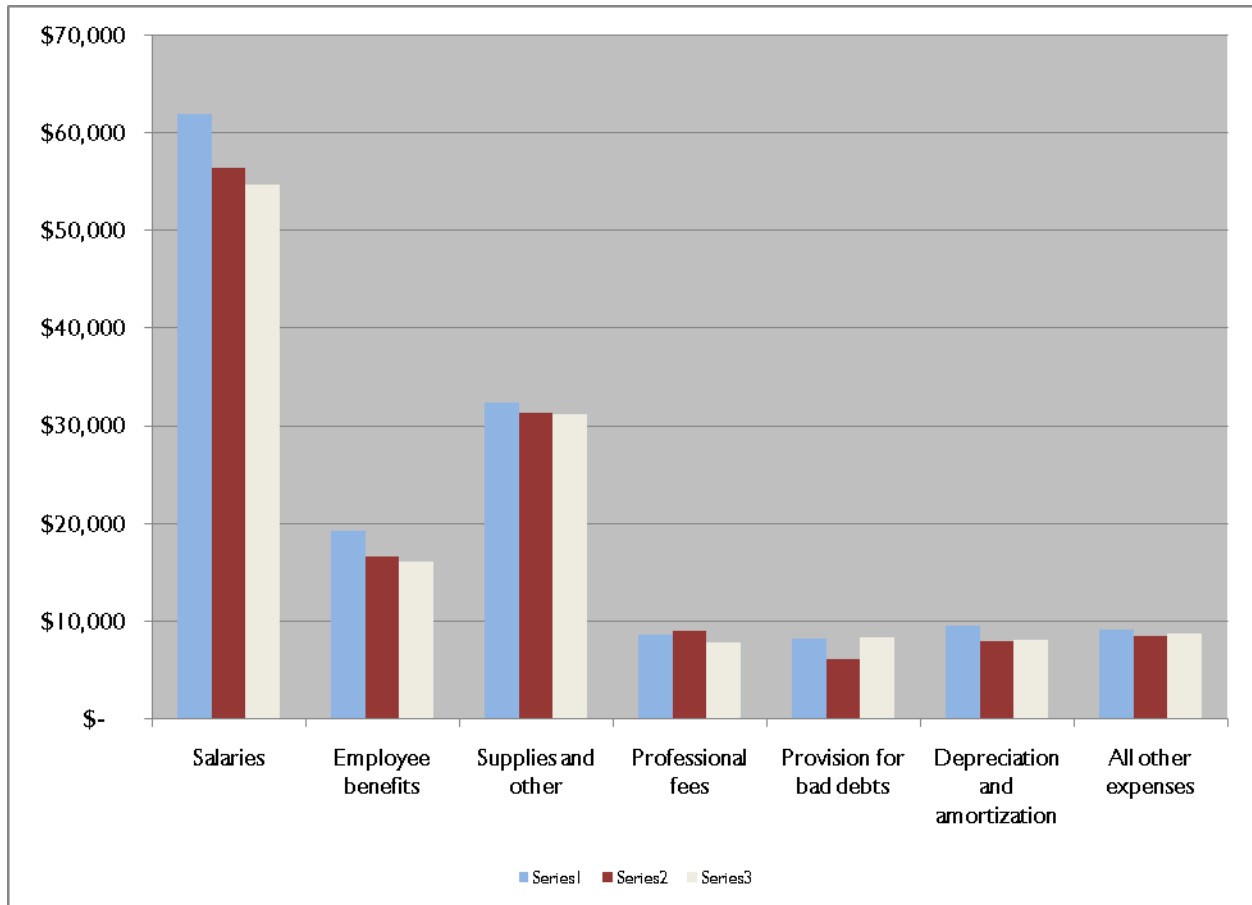
Operating Expenses

Total operating expenses in 2008 exceeded 2007 levels by \$4.5 million, or 3.3 percent, due to increased volumes, additional depreciation expense, and utilities due to the opening of the Robinson Professional Center. In 2007, total operating expenses were \$6.4 million, or 4.9 percent, higher than 2006.

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

The major increases in 2007 over 2006 are in pharmaceuticals (8.9 percent), salaries (6.1 percent), and supplies and other (4.9 percent).

Salaries

Salaries increased \$2.1 million, or 3.5 percent, in 2008 from 2007 levels, due mainly to wage increases of roughly 3.5 percent. The number of full-time equivalent positions in 2008 was 1,281.8 versus 1,282.2 in 2007 and 1,244.0 in 2006.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Supply and Other Expenses

Supply and other expense cost decreased \$.5 million, or 1.5 percent, in 2008 over the 2007 level.

Supply and other expenses increased 4.9 percent between 2006 and 2007.

Pharmaceuticals

Pharmaceuticals decreased 3.7 percent in 2008 over 2007 levels due to reduced volumes. For 2007, pharmaceutical costs increased by 8.9 percent over 2006 levels due mainly to increased volumes and increases in cost per dosage.

Utilities and Other

Utilities increased 14.4 percent in 2008 as compared to 2007 and is attributed to the opening of the new Robinson Professional Center. In 2007, utilities remained flat.

Depreciation and Amortization

Depreciation and amortization increased 9.3 percent in 2008, as the Hospital had additional renovations to inpatient rooms and the opening of the Robinson Professional Center. In 2007, depreciation increased 9.8 percent as the Hospital began renovating inpatient rooms, including new beds and furniture. In addition, several software systems were purchased in 2007.

Nonoperating Revenues and Expenses

Investment and Other Income

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

Interest expense increased \$.3 million in 2008 due primarily to interest incurred on new debt in 2008 and increased variable interest rates associated with the 2005 bonds.

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

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

Unrealized gains on investments increased \$2.4 million in 2007 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 2009 operating budget at their October 2008 meeting. This budget was developed after a review of key volume indicators and trends seen at other hospitals in Northeast Ohio as well as trends for the Hospital. The budget incorporated the Hospital's current strategic business plan, long-range information systems plan, as well as Portage County economic factors such as estimated population growth and unemployment rates.

The budget for the Hospital provides for operating income of \$3.3 million, a 2.0 percent operating margin. The 2009 operating budget projects \$6.5 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	
	2008	2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 5,781	\$ 8,171
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	863	452
Patient accounts receivable - Less allowance for estimated uncollectible accounts of approximately \$6,961,000 in 2008 and \$4,125,000 in 2007	20,520	19,410
Other current assets	<u>62,318</u>	<u>60,401</u>
Total current assets	89,482	88,434
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	125,008	81,775
Capital Assets - Net (Note 6)	92,467	82,268
Other Assets	<u>3,443</u>	<u>2,667</u>
Total assets	<u>\$ 310,400</u>	<u>\$ 255,144</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 4,248	\$ 2,096
Accounts payable	6,289	5,763
Accrued employee compensation	3,240	2,701
Compensated absences (Note 11)	3,611	3,668
Accrued expenses	4,075	5,612
Other current liabilities	<u>58,350</u>	<u>56,026</u>
Total current liabilities	79,813	75,866
Long-term Debt - Net of current portion (Note 7)	85,216	44,420
Self-insurance and Other Liabilities (Note 10)	<u>3,018</u>	<u>2,641</u>
Total liabilities	168,047	122,927
Net Assets		
Invested capital assets - Net of related debt	38,715	35,752
Restricted by donor for specific uses	3,256	3,445
Unrestricted	<u>100,382</u>	<u>93,020</u>
Total net assets	<u>142,353</u>	<u>132,217</u>
Total liabilities and net assets	<u>\$ 310,400</u>	<u>\$ 255,144</u>

Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2008	2007
Operating Revenue		
Net patient service revenue	\$ 142,796	\$ 137,298
Other	3,974	4,077
Total operating revenue	146,770	141,375
Operating Expenses		
Salaries and wages	62,017	59,941
Employee benefits	19,295	17,311
Supplies and other expenses	32,470	32,952
Professional services	8,612	8,598
Utilities	3,001	2,623
Pharmaceutical	6,205	6,442
Depreciation and amortization	9,575	8,759
Total operating expenses	141,175	136,626
Operating Income	5,595	4,749
Nonoperating Revenue (Expense)		
Investment and other income - Net	3,057	4,481
Interest expense	(2,597)	(2,277)
Changes in net unrealized gains and losses	3,606	2,543
Total nonoperating revenue	4,066	4,747
Excess of Revenue Over Expenses	9,661	9,496
Gifts, Grants, Bequests, and Other	475	634
Increase in Net Assets	10,136	10,130
Net Assets - Beginning of year	132,217	122,087
Net Assets - End of year	<u>\$ 142,353</u>	<u>\$ 132,217</u>

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (amounts in thousands)

	Year Ended December 31	
	2008	2007
Cash Flows from Operating Activities		
Cash received from patients	\$ 141,112	\$ 137,602
Other cash receipts	3,974	4,077
Cash payments to suppliers	(50,715)	(48,802)
Cash payments to employees	(80,830)	(76,124)
Net cash provided by operating activities	13,541	16,753
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	475	634
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	45,000	-
Purchase of property	(19,725)	(25,962)
Principal paid on debt	(2,094)	(2,186)
Interest paid on debt	(2,572)	(2,277)
Net cash provided by (used in) capital and related financing activities	20,609	(30,425)
Cash Flows from Investing Activities		
Purchases of investments	(72,020)	(52,475)
Sale of investments	72,963	53,260
Investment and other income	3,057	4,481
Changes in assets limited as to use	(41,015)	8,833
Net cash (used in) provided by investing activities	(37,015)	14,099
Net (Decrease) Increase in Cash and Cash Equivalents	(2,390)	1,061
Cash and Cash Equivalents - Beginning of year	8,171	7,110
Cash and Cash Equivalents - End of year	\$ 5,781	\$ 8,171
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 5,595	\$ 4,749
Adjustment to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	9,575	8,759
Provision for bad debts and other charges	7,301	6,848
Changes in assets and liabilities:		
Patient accounts receivable	(8,411)	(7,681)
Other current assets	(1,916)	(15,481)
Other assets	(776)	(237)
Accounts payable	526	804
Other current liabilities	2,324	16,395
Compensated absences and accrued employee compensation	483	1,128
Other liabilities and accrued expenses	(1,160)	1,469
Net cash provided by operating activities	\$ 13,541	\$ 16,753

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (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 \$8 and \$13 at December 31, 2008 and 2007, 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 2007 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, which will be recorded under the equity method. As of December 31, 2008, 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, 2008 and 2007 (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, 2008 and 2007, the Hospital has recorded an asset of \$1,180 and \$1,055, 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, 2008 and 2007 (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.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Investment Income - Investment income of the self-insurance trust accounts and certain bond accounts, included in assets limited as to use, is recorded as other revenue and approximated \$322 and \$258 for the years ended December 31, 2008 and 2007, 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.

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 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

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

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

The Hospital's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consist of amounts due from governmental programs, commercial insurance companies, private-pay patients, and other group insurance programs. Net patient service revenues from the Medicare program, including Medicare HMOs, accounted for approximately 33 percent and 32 percent of the Hospital's net patient service revenue for the years ended December 31, 2008 and 2007, respectively. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 6 percent and 7 percent for the years ended December 31, 2008 and 2007, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 16 percent for the years ended December 31, 2008 and 2007, respectively. Excluding Medicare and Medical Mutual of Ohio, no other payor source represents more than 10 percent of the Hospital's net patient revenues. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs greater than \$1,000. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives, using the straight-line method. Expenditures, which substantially increase the useful lives of existing assets, are capitalized. Routine maintenance and repairs are expensed as incurred. Useful lives are as follows:

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

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2008 and 2007 are as follows (amounts in thousands):

	2008	2007
Pledges due:		
In less than one year	\$ 140	\$ 108
In one to five years	250	398
Total	390	506
Allowance for doubtful pledges	(8)	(10)
Net	<u>\$ 382</u>	<u>\$ 496</u>

Note 2 - Deposits and Investments

Deposits

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

Custodial risk is the risk that, in the event of bank failure, the Hospital's deposits might not be recovered. The Hospital's bank deposits, in thousands, at December 31, 2008 and 2007 totaled \$1,936 and \$2,299, respectively, and were subject to the following categories of custodial risk (amounts in thousands):

	2008	2007
Collateralized with securities held by the pledging institution's trust department	\$ 1,589	\$ 1,979
Amount insured	668	320
Total bank balances	<u>\$ 2,257</u>	<u>\$ 2,299</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

Investments

As of December 31, 2008 and 2007, the fair value of the Hospital's investments was as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 2,051	\$ 2,278
Equities	1,200	1,931
U.S. government obligations	118,805	79,773
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	<u>6,662</u>	<u>2,085</u>
Total investments	<u>\$ 128,718</u>	<u>\$ 86,067</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Deposits	\$ 2,934	\$ 4,331
Investments	<u>128,718</u>	<u>86,067</u>
Total deposits and investments	<u>\$ 131,652</u>	<u>\$ 90,398</u>

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

Interest Rate Risk - The Hospital's investment policies limit the investment portfolio to a weighted average life of seven years or less. All of the Hospital's investments at December 31, 2008 have a weighted average life of less than seven years.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

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

Securities Lending Transactions - The Hospital engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Hospital received as collateral the market value of securities borrowed plus a premium of 2.0 percent of the market value of those securities. The Hospital records the fair value of the collateral received as both an other current asset and as an other current liability since the Hospital is obligated to return the collateral upon the return of the borrowed securities. Other current assets (and liabilities) included \$58,247 and \$55,349 of collateral investments at December 31, 2008 and 2007, respectively.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2008 and 2007, the estimated charges forgone of providing charity care services and supplies were approximately \$16,485 and \$14,944, respectively.

Note 4 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Inpatient acute-care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services are paid under the prospective payment system known as ambulatory payment classifications (APCs). Under APCs, the Hospital is paid a prospectively determined rate based on the diagnosis and procedures provided to patients.

Program examinations of cost reports have been finalized for the Medicare program through 2006 and the Medicaid program through 2003. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 4 - Net Patient Service Revenue (Continued)

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 2009. 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, 2008 and 2007 (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 (amounts in thousands):

	2008	2007
Board of trustees:		
Excess and funded depreciation	\$ 79,013	\$ 71,585
Self-insurance trust	6,087	5,590
Funds held by trustee under bond indenture	<u>36,576</u>	<u>452</u>
Total assets limited to use by board designation	121,676	77,627
By donor:		
Unrestricted	1,642	1,956
Restricted	<u>2,553</u>	<u>2,644</u>
Total by donor	<u>4,195</u>	<u>4,600</u>
Total assets limited as to use or restricted	125,871	82,227
Less assets limited as to use or restricted -		
Required for current liabilities	<u>863</u>	<u>452</u>
Total	<u>\$ 125,008</u>	<u>\$ 81,775</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, 2008 and 2007 (amounts in thousands)

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2008 and 2007:

	2008			Ending Balance
	Beginning Balance	Increase	Decrease	
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

During 2008, the Hospital began a construction project for a new medical office building, located in Streetsboro, Ohio. Construction costs incurred during 2008 totaled approximately \$9.2 million. At December 31, 2008, the remaining commitment (including retainage) on these contracts approximates \$5.2 million.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 6 - Capital Assets (Continued)

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Hospital Revenue Bonds, Series 2008, bearing interest at variable rates (1.33 percent at December 31, 2008), and maturing in varying amounts through 2033	\$ 45,000	\$ -
Hospital Revenue Bonds, Series 2005, bearing interest at variable rates (1.75 percent at December 31, 2008), and maturing in varying amounts through 2022	30,145	30,945
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$137 and \$150 at December 31, 2008 and 2007, respectively, bearing interest at rates ranging from 5.25 percent to 5.75 percent, and maturing in varying amounts through 2019	13,898	14,801
Capital lease obligations	<u>421</u>	<u>770</u>
Total	89,464	46,516
Less current portion	<u>4,248</u>	<u>2,096</u>
Long-term portion	<u>\$ 85,216</u>	<u>\$ 44,420</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. 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, 2008 and 2007 (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 2008, the rates for the variable rate bonds ranged from 5.79 percent to .90 percent (average rate 1.80 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, the Series 2005 Bonds have been successfully remarketed; however, due to the state of the current market conditions, management is unable to assess whether the bonds will continue to be successfully remarketed in the future. The Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit with an initial term of seven years ending August 15, 2012. In 2007, the Hospital was given an extension to August 15, 2014. The debt obligation supported by the letter of credit is subject to mandatory redemption upon the expiration of the letter of credit or any alternate letter of credit. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

The Series 2005 Bonds bear interest at a variable rate. During 2008, the rates for the variable rate bonds ranged from 8.01 percent to 1.29 percent (average rate 2.49 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, 2008 and 2007 (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 \$960 outstanding serial bonds which mature on November 15, 2009; \$5,650 term bonds due November 15, 2014; and \$7,425 term bonds due November 15, 2019. Early redemption privileges are available.

At December 31, 2008, the fair value of the bonds of approximately \$89,815 exceeded the carrying value of approximately \$89,180.

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, 2008 and 2007:

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

The revenue bond payment requirements as of December 31, 2008 are as follows:

January 1	Principal	Interest	Total
2009	\$ 3,860	\$ 3,307	\$ 7,167
2010	4,030	3,162	7,192
2011	4,220	3,006	7,226
2012	4,400	2,844	7,244
2013	4,600	2,674	7,274
2014 - 2018	26,285	10,509	36,794
2019 - 2023	17,885	5,690	23,575
2024 - 2028	10,665	3,468	14,133
2029 - 2033	13,235	1,429	14,664
Total	\$ 89,180	\$ 36,089	\$ 125,269

The capital lease requirements as of December 31, 2008 are as follows:

January 1	Capital Lease Obligations		
	Principal	Interest	Total
2009	\$ 388	\$ 4	\$ 392
2010	33	-	33
	\$ 421	\$ 4	\$ 425

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

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 .9 percent to 1.3 percent (average of 1.1 percent) in 2008.

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 1.3 percent to 3.5 percent (average rate of 2.1 percent) in 2008.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*. The new pronouncement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions in the financial statements. The new rules will cause the financial statements to report a fair value for certain derivative investments that have in the past only been disclosed in the notes. This new requirement will change how the Hospital reports its interest rate swap agreements in the financial statements. The new pronouncement is effective for the year ending December 31, 2010, although early adoption is encouraged.

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

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 9 - Employee Benefit Plans (Continued)

Total required employer contributions made were \$8,008 in 2008, \$7,636 in 2007, and \$7,106 in 2006. Employer contributions represented 14.0 percent of covered payroll in 2008 and 13.85 percent for 2007. Employee contributions were \$5,720 in 2008, \$5,238 in 2007, and \$4,668 in 2006, representing 10.0 percent of covered payroll in 2008 and 9.5 percent of covered payroll in 2007, and were consistent across all three plans (TP, MD, and CO) and are actuarially determined. In 2008, 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.

For 2007 and 2006, 95 percent and 95.5 percent, respectively, of the contributions as a percentage of covered payroll were used to fund pension obligations, the remaining amounts were used to fund healthcare programs for retired members.

Robinson Memorial Portage County Hospital's payroll for employees covered by PERS for the years ended December 31, 2008 and 2007 was approximately \$57,200 and \$55,135, respectively. The Hospital's total payroll was approximately \$62,017 in 2008 and \$59,941 in 2007.

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, 2007, 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 is presented below:

Accrued postretirement healthcare liability	\$ 29,800
Net assets available for benefits	<u>12,800</u>
Unfunded actuarial accrued liability	<u>\$ 17,000</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 9 - Employee Benefit Plans (Continued)

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, 2008 was 363,503. Of the total required Hospital contribution, 7.0 percent for 2008 and 5.0 percent for 2007 was actually made to fund postretirement healthcare benefits.

Note 10 - Medical Malpractice Claims

The Hospital is self-insured for medical malpractice claims subject to certain limitations. Accordingly, the provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Potential losses from asserted and unasserted claims are accrued based on actuarially determined estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of the claim or incident and relevant trend factors. These amounts are recorded at the estimated present value using a discount rate of 3.0 percent for both 2008 and 2007. The change in the liability for self-insurance is as follows (amounts in thousands):

	2008	2007
Beginning balance	\$ 2,641	\$ 2,847
Provision for self-insurance	377	(206)
Ending balance	\$ 3,018	\$ 2,641

For the years ended December 31, 2008 and 2007, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate. The Hospital established a trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2008 and 2007 (amounts in thousands)

Note 11 - Compensated Absences

Hospital employees earn vacation and sick leave at varying rates depending on length of service. Employees can accumulate up to three years of vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the Hospital. Upon retirement or death, unused leave balances (up to a maximum of 240 hours) are paid at varying rates depending on length of service. As of December 31, 2008 and 2007, the liability for unpaid compensated absences was \$3,611 and \$3,668, 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 \$1,550 and \$2,050 in 2008 and 2007, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

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

To the Board of Trustees
Robinson Memorial Portage
County Hospital

We have audited the basic financial statements of Robinson Memorial Portage County Hospital, a component unit of Portage County, as of and for the year December 31, 2008 and have issued our report thereon dated April 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

To the Board of Trustees
Robinson Memorial Portage
County Hospital

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Robinson Memorial Portage County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Robinson Memorial Portage County Hospital in a separate letter dated April 1, 2009.

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, 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 1, 2009



Mary Taylor, CPA
Auditor of State

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL & 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
MAY 19, 2009**