

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Basic Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



**Auditor of State
Betty Montgomery**

Board of Trustees
Robinson Memorial Portage County Hospital
6847 N. Chestnut St.
Ravenna, OH 44266-1204

We have reviewed the Independent Auditor's Report of the Robinson Memorial Portage County Hospital, Portage County, prepared by KPMG LLP, for the audit period January 1, 2003 through December 31, 2003. 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 is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 27, 2004

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital's (Hospital) financial performance provides an overall review of the Hospital's financial activities for the fiscal year ended December 31, 2003 and 2002. 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.

Financial Highlights

- In 2003, total assets increased \$1.7 million over 2002 levels. Total cash and investments on hand at December 31, 2003 decreased \$9.6 million over December 31, 2002. Net accounts receivable increased \$3.1 million. Net days revenue in accounts receivable was 60.9 days at December 31, 2003, compared to 53.6 days at December 31, 2002, and 55.5 days in 2001.
- Total liabilities decreased \$1.0 million; current liabilities increased \$2.3 million; long-term liabilities decreased \$3.3 million from December 31, 2002 to December 31, 2003.
- Additions to property, plant and equipment were in excess of \$14.4 million during 2003, compared to \$7.9 million in 2002.
- Additional debt of \$.6 million was added for Management Information Systems file servers during 2003. The debt is a capital lease for 36 months with an implicit rate of 1.88 %.
- Net cash provided by operating activities was \$7.3 million in 2003 compared to \$9.1 million in 2002.
- Operating income was approximately \$2.1 million in 2003 compared to approximately \$2.6 million in 2002.

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 as an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

Robinson Memorial Portage County Hospital (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.

While the County is empowered to appropriate money from its general fund, from certain state and federal moneys 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 health care 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 affiliations, 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

Management's Discussion and Analysis

The Balance Sheet and the Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows, provide an indication of the Hospital's results. The Balance Sheet includes the Hospital's assets and liabilities, using the accrual basis of accounting. The Statements of Revenues, Expenses, and Changes in Net Assets report the revenues earned and expenses incurred during the time periods indicated. The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources 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 from \$106.0 million at December 31, 2002 to \$108.6 million at December 31, 2003. Total Net Assets increased \$6.5 million from December 31, 2002 to December 31, 2001. Table 1 provides a summary of the Hospital's Total Net Assets at December 31, 2003 compared to December 31, 2002, and December 31, 2002 compared to December 31, 2001.

Table 1
Net Assets (In thousands)

	December 31		
	2003	2002	2001
Assets:			
Current Assets	\$29,916	\$26,270	\$25,053
Assets Whose Use is Limited	71,731	81,713	72,908
Other Assets	2,308	2,500	2,492
Capital Assets	62,592	54,357	52,547
Total Assets	\$166,547	\$164,840	\$153,000
Liabilities:			
Current Liabilities	17,357	15,012	12,729
Long-term Debt	38,642	41,663	37,929
Other long-term liabilities	1,926	2,206	2,902
Total Liabilities	\$57,925	\$58,881	\$53,560
Net Assets:			
Unrestricted	83,729	86,947	84,488
Invested in Capital Assets, Net of Related Debt	22,839	17,444	13,056
Restricted	2,054	1,568	1,896
Total Net Assets	\$108,622	\$105,959	\$99,440
Total Liabilities & Net Assets	\$166,547	\$164,840	\$153,000

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

In 2003, the Hospital's cash and investment position decreased \$9.6 million from 2002 (in thousands).

Accounts	2003	2002	2001
Operating Cash	\$ 6,468	\$6,382	\$6,110
Board Designated Funds	69,339	75,732	71,587
Trustee Bond Funds	3,029	6,373	1,720
Total Available Cash	\$ 78,836	\$88,487	\$79,417

The Hospital maintains sufficient cash balances in current assets to cover approximately 20 days of expenses. All excess cash is transferred to the operations excess fund for future needs. The operations excess fund at the end of 2003 is \$14.9 million compared to \$16.5 million at the end of 2002 and \$18.0 million at the end of 2001. The decrease is attributable to expenditures for Capital Assets.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased from December 31, 2003 to December 31, 2002 by \$3.1 million due to increased net revenue and increased days in receivables. While the days in receivables increased, the aging of receivables improved which management believes indicates a higher probability of collectibility. Patient accounts receivable, net of allowance for uncollectibles, remained relatively consistent between December 31, 2002 and December 31, 2001, with an increase of \$0.5 million.

Capital Assets

Capital assets increased from \$54.4 million in 2002 to \$62.6 million in 2003. The increase relates to \$14.4 million in capital additions, offset by \$6.2 million in depreciation expense. Capital additions include Radiology Department construction and equipment, critical care furnishings, and several large information systems additions.

Capital assets increased from \$52.5 million in 2001 to \$54.4 million in 2002. The increase related to \$7.5 million in capital additions, offset by \$5.6 million in depreciation expense. The capital additions include Radiology Department construction in process, Magnetic Resonance Imaging equipment, ultrasound equipment, and several large information systems additions.

Debt Administration

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

Ratio	2003	2002	2001	Covenant
Days cash on hand	217.90	251.00	242.30	100.00
Supplemental rate	2.53	2.68	2.28	1.50
Historical coverage	2.90	3.22	2.40	1.00
Cushion	11.03	12.23	13.93	1.50

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2003 compared to 2002 and 2001.

Table 2
Revenue and Expenses (In thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net Patient Service Revenue	\$ 118,123	114,105	109,566
Other	3,017	3,286	3,516
Total Operating Revenue	\$ 121,140	117,391	113,082
Operating Expenses:			
Salaries & Wages	50,310	49,684	47,632
Employee Benefits	16,072	14,477	13,489
Supplies and other expenses	24,354	23,361	23,315
Professional Fees	7,627	7,086	7,725
Utilities	2,005	1,916	2,053
Pharmaceuticals	4,686	4,652	4,228
Depreciation/Amortization	6,875	6,233	6,372
Provision for bad debts	7,157	7,417	7,368
Total Operating Expenses	\$ 119,086	114,826	112,182
Operating Income	2,054	2,565	900
Nonoperating revenues and expenses:			
Investment and other income, net	4,042	5,174	4,219
Interest expense	(2,363)	(2,402)	(2,449)
Change in net unrealized gains and losses	(1,518)	959	1,569
Income before other revenue, expenses, gains and losses	2,215	6,296	4,239
Gifts, grants, and bequests	448	222	307
Increase in net assets	2,663	6,518	4,546
Total net assets,			
beginning of year	\$ 105,959	99,441	94,895
Total net assets, end of year	\$ 108,622	105,959	99,441

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Net Patient Service Revenues

Net patient service revenues increased \$4.0 million or 3.5% in 2003 as compared to 2002 and \$4.1 million or 3.7% in 2002 as compared to 2001.

Gross patient service revenues increased \$17.1 million or 7.3% in 2003 versus 2002. On January 1, 2003, the Hospital Board of Trustees approved a 3% price increase. This price increase accounts for approximately \$7.0 million of additional gross patient service revenues generated by the Hospital. Higher volumes in areas such as the Laboratory, Radiology areas, Emergency Services, Operating Room, Endoscopy and Visiting Nurse and Hospice, generated approximately \$10.1 million in actual business growth in gross patient service revenue in 2003 as compared to 2002.

Gross patient service revenues increased \$22.7 million or 10.8% in 2002 versus 2001. This is due to the fact that on January 1, 2002, the Hospital Board of Trustees approved a 5% price increase. This price increase accounted for approximately \$11.6 million of additional gross patient service revenues generated by the Hospital. Higher volumes in areas such as the Laboratory, Radiology areas, Emergency Services, Operating Room, Endoscopy and Visiting Nurse and Hospice, generated \$11.1 million in actual business growth in gross patient service revenue in 2002.

Inpatient Business Activity

Total admissions in 2003 declined 2.7% as compared to 2002 which was consistent with 2001 levels (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>	2003 to 2002 % Change
Internal medicine	\$ 3,126	2,676	2,483	16.8%
General surgery	804	884	721	(9.0)%
Pulmonary medicine	275	301	258	(8.6)%
Urology	39	53	41	(26.4)%
Oncology	147	163	156	(9.8)%
Other	21	35	28	(40.0)%
Gastroenterology	35	54	49	(35.2)%
Neurology	82	98	107	(16.3)%
Cardiovascular surgery	166	179	199	(7.3)%
Otolaryngology	43	32	54	34.4%
Cardiology	329	456	498	(27.9)%
Pediatrics	664	731	781	(9.2)%
Orthopedics	321	371	440	(13.5)%
OB/GYN	915	952	1,024	(3.9)%
Family practice	2,039	2,271	2,419	(10.2)%
Subtotal	<u>\$ 9,006</u>	<u>9,256</u>	<u>9,258</u>	<u>(2.7)%</u>
Psychiatry	—	—	217	—
Total	<u><u>\$ 9,006</u></u>	<u><u>9,256</u></u>	<u><u>9,475</u></u>	<u><u>(2.7)%</u></u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Total patient days declined by 1,500 days in 2003 and 694 days in 2002. Length of stay (LOS) for Hospital inpatient has remained relatively stable over the three-year period as shown below:

<u>Specialty</u>	Patient Days		
	2003	2002	2001
Medical/Surgical	27,987	27,980	27,306
Critical Care	3,572	3,923	3,748
Pediatrics	337	486	453
Obstetrics	1,880	1,838	2,056
Mental Health	—	—	1,263
Subtotal	33,776	34,227	34,826
Newborn	1,432	1,481	1,576
Total	35,208	35,708	36,402

<u>Specialty</u>	Average Length of Stay		
	2003	2002	2001
Medical/Surgical	5.0	5.0	5.0
Critical Care	2.1	2.1	2.0
Pediatrics	1.8	1.8	1.8
Obstetrics	2.3	2.3	2.4
Mental Health	0.0	0.0	5.7
Newborn	2.1	2.1	2.2
Total	13.3	13.3	19.1

The decrease in inpatient discharges and days in 2003 can be attributed to physicians who retired or moved out of state due to high increases in the cost of malpractice insurance, physician illness and a shift to outpatient services mix at the Hospital.

The overall case mix index (a standard measurement of patient activity) based on the latest Medicare weights available for this calculation, reflects an increase of 3.8%, indicating that the patients admitted to the Hospital were more acutely ill than those admitted in 2002. The increase in case mix index between 2001 and 2002 was less than 1%.

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 6.5% net of the overall 3% price increase in 2003 after increasing 8.5% in 2002. Areas that recorded the largest increase in revenues during 2003 were the physician practice locations, Laboratory, Audiology/Neurology, Sleep Lab, Endoscopy, Emergency Services and the Cardiac Cath Lab. Several new physicians joined our practice locations, including an OB/GYN, orthopedic surgeon, and internal medicine physicians.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Deductions from Revenue

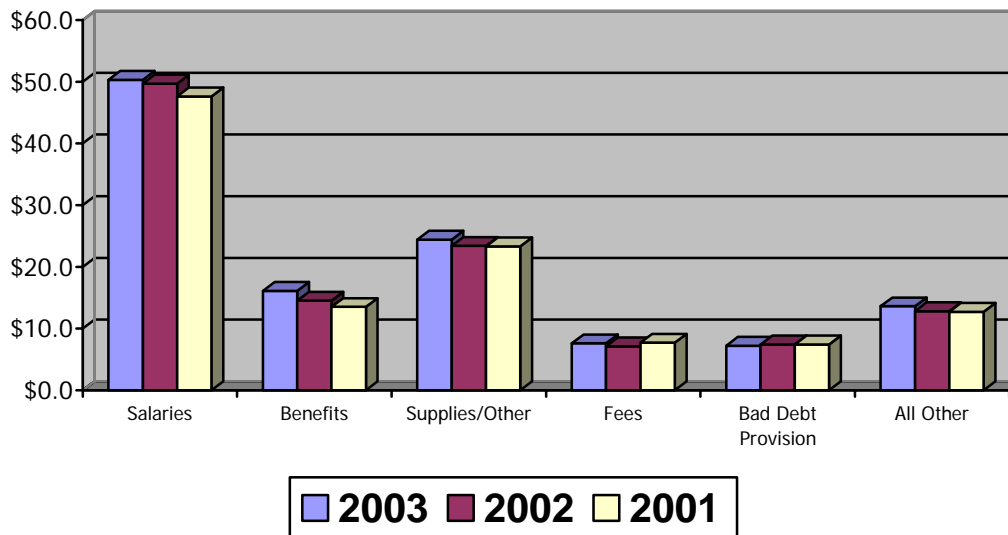
Contractual service adjustments, expressed as a percentage of gross revenues were recorded at 50.6% in 2003 compared to 49.4% in 2002. In 2001, deductions from revenue were recorded at 47.1%. This increase in contractual service adjustments is due to the price increases granted in 2003 and 2002, respectively, by the Board of Trustees, reduced reimbursement from Medicare and Medicaid, and changes in negotiated third-party insurers.

Charity care for 2003 increased \$1.5 million over the 2002 level, which approximated the 2001 level. The State of Ohio developed a program in the late 1980's 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 2003, the Hospital received \$1,284,300 from the Ohio Care Assurance Program, compared to \$1,181,100 in 2002, and \$1,545,000 in 2001.

Operating Expenses

Total operating expenses in 2003 exceeded 2002 levels by \$4.2 million or 3.7%. In 2001, total operating expenses were \$2.6 million lower than 2002.

Operating Expense Comparison
(In Millions)



ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

(in thousands)	<u>2003</u>	<u>2002</u>	<u>2001</u>
Salaries	\$ 50,310	49,684	47,632
Employee benefits	16,072	14,477	13,488
Supplies and other	24,354	23,361	23,315
Professional fees	7,628	7,085	7,725
Provision for bad debts	7,157	7,417	7,368
All other expenses	13,565	12,800	12,652

The largest increases in operating expenses in 2003 over 2002 levels are reflected in benefits and supplies and other expenses.

The major increases in 2002 over 2001 are in salaries and benefits as a result of a pay adjustment to all employees effective January 1, 2002 which accounted for approximately 3.5% of the increase in salaries. Also, during 2002 Hospital management continued to evaluate all employee job classifications and made special pay adjustments where appropriate that cost the Hospital approximately \$160,000 on an annual basis in 2002.

Employee Benefits

Overall, Hospital benefit cost rose 11.0% in 2003 as compared to 2002 and 7.3% increase in 2002 as compared to 2001.

The Hospital is self-insured for health and dental benefits, with a stop-loss insurance policy for healthcare claims that begins when claim costs reach \$225,000. During 2003, the hospital incurred several insurance claims that met and exceeded the stop-loss limit, and incurred an unusually high number of claims that exceeded \$50,000 or more.

In September 2003, the Hospital changed third party administrators of employee healthcare claims after an extensive review and bidding process. The new third party administrator was selected, in part, for its aggressive disease management, case management, and utilization review programs.

Supply and Other Expenses

Supply and other expense cost increased 4.3% in 2003 over the 2002 level to \$24,354,000. During 2003, the hospital saw significant growth in the number of procedures performed in the Cardiac Catheterization Laboratory. These procedures include pacemaker and defibrillator implants, which are expensive and account for more than one-half of the increase in supply costs. Rent expense increased in 2003 as the Hospital expands service locations throughout the Portage County area. Supply and other expenses remained consistent between 2002 and 2001.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2004-operating budget at their October 2003 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 provides for an operating income of \$2.2 million, a 1.9% operating margin. Cost containment measures and continued renegotiations of managed care contracts and other expense is expected to contribute to the positive operating results. The 2004-operating budget projects a \$5.2 million income before other revenues, expenses, gains and losses.



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Independent Auditors' Report

The Board of Trustees
Robinson Memorial Portage County Hospital:

We have audited the accompanying balance sheets of Robinson Memorial Portage County Hospital (Hospital), a component unit of Portage County, as of December 31, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Robinson Memorial Portage County Hospital as of December 31, 2003 and 2002, and the changes in its financial positions, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 12, 2004 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, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 12, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Balance Sheets

December 31, 2003 and 2002

Assets	2003	2002
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 6,468,190	6,382,022
Assets limited as to use – required for current liabilities (notes 4 and 8)	637,632	392,589
Patient accounts receivable, less allowance for estimated uncollectibles of approximately \$2,002,000 in 2003 and \$2,551,000 in 2002	18,431,215	15,318,596
Estimated third-party payor settlements	—	100,810
Supplies and other current assets	<u>4,379,617</u>	<u>4,075,948</u>
Total current assets	29,916,654	26,269,965
Noncurrent assets limited as to use or restricted (notes 4 and 8)	71,730,817	81,713,046
Capital assets, net (note 5)	62,591,633	54,356,833
Other assets	<u>2,308,880</u>	<u>2,500,287</u>
Total assets	<u>\$ 166,547,984</u>	<u>164,840,131</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 3,501,496	2,882,035
Accounts payable	5,617,815	5,178,015
Accrued employee compensation	2,378,133	1,547,044
Accrued employee compensated absences	2,561,384	2,449,361
Accrued expenses	3,203,702	2,956,182
Estimated third-party payor settlements	<u>94,509</u>	<u>—</u>
Total current liabilities	17,357,039	15,012,637
Long-term debt (note 6)	38,642,401	41,662,725
Self-insurance and other liabilities (note 8)	<u>1,926,053</u>	<u>2,205,728</u>
Total liabilities	57,925,493	58,881,090
Commitments and contingencies (notes 3, 7, and 8)		
Net assets:		
Invested in capital assets, net of related debt	22,839,470	17,444,240
Restricted – by donor for specific uses	2,054,180	1,568,387
Unrestricted	<u>83,728,841</u>	<u>86,946,414</u>
Total net assets	<u>108,622,491</u>	<u>105,959,041</u>
Total liabilities and net assets	<u>\$ 166,547,984</u>	<u>164,840,131</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Net patient service revenue	\$ 118,122,723	114,104,735
Other	3,017,340	3,286,866
Total operating revenues	<u>121,140,063</u>	<u>117,391,601</u>
Operating expenses:		
Salaries and wages	50,309,586	49,684,157
Employee benefits	16,071,725	14,477,018
Supplies and other expenses	24,354,348	23,361,757
Professional services	7,627,589	7,085,946
Utilities	2,005,160	1,915,666
Pharmaceutical	4,685,961	4,651,703
Depreciation and amortization	6,874,856	6,232,863
Provision for bad debts	7,156,644	7,417,554
Total operating expenses	<u>119,085,869</u>	<u>114,826,664</u>
Operating income	2,054,194	2,564,937
Nonoperating revenues and expenses:		
Investment and other income, net	4,041,695	5,174,550
Interest expense	(2,363,203)	(2,401,942)
Change in net unrealized gains and losses	(1,517,212)	959,166
Income before other revenues, expenses, gains and losses	2,215,474	6,296,711
Gifts, grants and bequests	447,976	221,633
Increase in net assets	2,663,450	6,518,344
Total net assets, beginning of year	<u>105,959,041</u>	<u>99,440,697</u>
Total net assets, end of year	<u>\$ 108,622,491</u>	<u>105,959,041</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from patients	\$ 108,046,301	106,511,892
Other cash receipts	3,017,340	3,286,866
Cash payments to suppliers	(38,725,195)	(36,641,891)
Cash payments to employees	(65,088,199)	(64,009,678)
Net cash provided by operating activities	<u>7,250,247</u>	<u>9,147,189</u>
Cash flows from noncapital financing activities:		
Gifts, grants and bequests received	<u>447,976</u>	<u>221,633</u>
Net cash provided by noncapital financing activities	<u>447,976</u>	<u>221,633</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	—	6,635,000
Purchase of property	(14,427,079)	(7,935,795)
Principal paid on debt	(3,102,109)	(2,645,772)
Interest paid on debt	(2,344,536)	(2,409,083)
Net cash used in capital and related financing activities	<u>(19,873,724)</u>	<u>(6,355,650)</u>
Cash flows from investing activities:		
Investment and other income	4,041,695	5,174,550
Change in assets limited as to use	<u>8,219,974</u>	<u>(7,915,888)</u>
Net cash provided by (used in) investing activities	<u>12,261,669</u>	<u>(2,741,338)</u>
Net increase in cash and cash equivalents	86,168	271,834
Cash and cash equivalents at beginning of year	<u>6,382,022</u>	<u>6,110,188</u>
Cash and cash equivalents at end of year	<u>\$ 6,468,190</u>	<u>6,382,022</u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,054,194	2,564,937
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,874,856	6,232,863
Provision for bad debts	7,156,644	7,417,554
Changes in assets and liabilities:		
Accounts receivable	(10,269,263)	(7,904,212)
Supplies and other current assets	(303,669)	(844,536)
Other assets	191,407	(67,378)
Accounts payable	439,800	1,733,856
Compensated absences	112,023	144,206
Accrued expenses	247,522	285,205
Estimated third party payor settlements	195,319	378,747
Accrued employee compensation	831,089	7,291
Other liabilities	(279,675)	(801,344)
Net cash provided by operating activities	<u>\$ 7,250,247</u>	<u>9,147,189</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Robinson Memorial Portage County Hospital (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 health care 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 (Foundation), Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. Investments in affiliations 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 \$168,244 and \$229,716, at December 31, 2003 and 2002, respectively. All significant intercompany accounts and transactions have been eliminated in the financial statements.

(b) Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

(c) Use of Estimates

The preparation of the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) 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, revenues are recognized in the period in which they are 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 Statement of Net Assets. The principle revenues of the Hospital are revenues 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 revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(e) *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.

(f) *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.

(g) *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 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.

(h) *Statements of Revenues, Expenses, and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include investment income, and are reported as non-operating.

In addition, those items excluded from the income before other revenues, expenses, gains, and losses, include gifts, grants and bequests.

(i) *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.

(j) *Restricted Net Assets*

Restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose or to be maintained by the Hospital in perpetuity.

(k) *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 \$287,000 and \$359,000 for the years ended December 31, 2003 and 2002, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments, which are restricted by donor, are added to (deducted from) restricted amounts.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(l) 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.

(m) Donations, Other Than Cash

Donated supplies, property and equipment, and investments are recorded at fair market value at date of donation, which is then treated as cost.

(n) 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.

(o) Concentrations of Credit Risk

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

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

The Hospital's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Revenues from the Medicare program accounted for approximately 27% and 26% of the Hospital's net patient service revenue for the years ended December 31, 2003 and 2002, respectively. Medicaid revenue accounted for approximately 7% in both years ended December 31, 2003 and 2002, respectively, and Blue Cross revenue accounted for approximately 24% and 23% for the years ended December 31, 2003 and 2002, respectively. Excluding Medicare and Blue Cross, no other payor source represents more than 10% of the Hospital's patient accounts receivable. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

(p) Deposits/Investments

Deposits are collateralized by the depository bank with pledged securities. Including the deposit insurance provided by the Federal Deposit Insurance Corporation, the collateral equals or exceeds the Hospital's carrying value. Collateral is held by the depository bank in the name of the Hospital.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

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The Hospital's investment policies are governed by state statutes, which authorize the Hospital to invest in U.S. government obligations. The Foundation is not governed by state statute and therefore is permitted to invest in equity securities. Investments are categorized to give an indication of the level of risk assumed by the Hospital at year-end. The categorized investments include those, which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9.

GASB Statement No. 9 requires Hospital investments to be categorized to give an indication of the potential for losses associated with the custody of the deposits and investment securities. Category 1 includes deposits or investment securities that are insured, registered, or in the physical possession of the Hospital. Category 2 includes uninsured deposits that are collateralized by securities held in the physical possession of the Hospital's financial institution or its trust department, in the Hospital's name. Category 3 includes uninsured and uncollateralized deposits, or uninsured or unregistered investments held in the physical possession of the Hospital's financial institution, but not in the Hospital's name. STAR Ohio funds are part of the investment fund operated by the Ohio State Treasurer and are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Category 2</u>	<u>Fair value</u>
2003:			
Unrestricted:			
Insured deposits	\$ 120,490	—	120,490
Uninsured deposits	—	(74,853)	(74,853)
U.S. Treasury obligations	75,760,432	—	75,760,432
Equity securities	946,278	—	946,278
	<u>76,827,200</u>	<u>(74,853)</u>	<u>76,752,347</u>
STAR Ohio	—	—	309,440
Petty cash	—	—	5,894
			<u>77,067,681</u>
Restricted:			
Insured deposits	137,221	—	137,221
Uninsured deposits	—	145,036	145,036
Equity securities	1,327,046	—	1,327,046
Subtotal	<u>1,464,267</u>	<u>145,036</u>	<u>1,609,303</u>
STAR Ohio			159,655
Total cash and investments			<u>\$ 78,836,639</u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

	<u>Category 1</u>	<u>Category 2</u>	<u>Fair value</u>
2002:			
Unrestricted:			
Insured deposits	\$ 120,490	—	120,490
Uninsured deposits	—	640,252	640,252
U.S. Treasury obligations	84,601,934	—	84,601,934
Equity securities	<u>837,132</u>	<u>—</u>	<u>837,132</u>
	85,559,556	640,252	86,199,808
STAR Ohio	—	—	850,933
Petty cash	—	—	<u>4,694</u>
			87,055,435
Restricted:			
Insured deposits	130,645	—	130,645
Uninsured deposits	—	187,000	187,000
Equity securities	<u>956,678</u>	<u>—</u>	<u>956,678</u>
Subtotal	1,087,323	187,000	1,274,323
STAR Ohio			<u>157,899</u>
Total cash and investments			<u>\$ 88,487,657</u>

(q) Supplies

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

(r) Capital Assets

Capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs greater than \$500. 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

(s) Goodwill

Goodwill amounting to \$1,095,000 and \$1,090,000 at December 31, 2003 and 2002, respectively, is included in other assets. Goodwill relates to the acquisition of Med-Center One, a wholly owned subsidiary of the Hospital, as well as other asset acquisitions. Goodwill is being amortized on a straight-line method over a period of five to twenty-five years.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

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 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 (fair value), 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.

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

(t) Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation.

(2) Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2003 and 2002, the estimated charges forgone of providing charity care services and supplies were approximately \$5,046,000 and \$3,582,000, respectively.

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from 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. Outpatient services, (other than ambulatory surgery, laboratory, and radiology) were paid through July 31, 2000 based upon a reimbursement methodology or a percentage of reasonable cost. As a result, final reimbursement for these services will be determined after submission of the Hospital's cost reports and audits by the third-party payors. Effective August 1, 2000, the Medicare program began paying hospitals for outpatient services 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. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory, are paid based upon prospectively determined fee schedules.

Program examinations of cost reports have been finalized for the Medicare program through 2001 and the Medicaid program through 1998. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

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

(4) Assets Limited as to Use or Restricted

As of December 31, 2003 and 2002, assets limited as to use or restricted have been set aside at fair value as follows:

	<u>2003</u>	<u>2002</u>
Board of trustees:		
Funded depreciation and other	\$ 45,416,442	51,785,245
Self-insurance trust	6,132,954	5,918,083
Excess fund	14,947,030	16,521,252
Funds held by trustee under bond indenture	3,029,367	6,372,831
Restricted by donor	<u>2,842,656</u>	<u>1,508,224</u>
Total assets limited as to use or restricted	72,368,449	82,105,635
Less assets limited as to use or restricted – required for current liabilities	<u>637,632</u>	<u>392,589</u>
	<u>\$ 71,730,817</u>	<u>81,713,046</u>

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

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(5) Capital Assets

Capital assets consist of the following at December 31, 2003 and 2002:

2003	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 3,339,485	76,545	—	3,416,030
Construction in progress	<u>3,416,298</u>	<u>—</u>	<u>(2,087,078)</u>	<u>1,329,220</u>
Total capital assets, not being depreciated	6,755,783	76,545	(2,087,078)	4,745,250
Capital assets, being depreciated:				
Buildings	48,119,183	6,913,675	(217,007)	54,815,851
Fixed and movable equipment	<u>70,164,385</u>	<u>10,308,901</u>	<u>(567,957)</u>	<u>79,905,329</u>
Total capital assets, being depreciated	118,283,568	17,222,576	(784,964)	134,721,180
Less accumulated depreciation	<u>70,682,518</u>	<u>6,708,773</u>	<u>(516,494)</u>	<u>76,874,797</u>
Total capital assets, being depreciated, net	<u>47,601,050</u>	<u>10,513,803</u>	<u>(268,470)</u>	<u>57,846,383</u>
Total capital assets, net	\$ <u><u>54,356,833</u></u>	<u><u>10,590,348</u></u>	<u><u>(2,355,548)</u></u>	<u><u>62,591,633</u></u>
2002				
Capital assets, not being depreciated:				
Land and land improvements	\$ 3,262,845	76,640	—	3,339,485
Construction in progress	<u>815,710</u>	<u>3,014,326</u>	<u>(413,738)</u>	<u>3,416,298</u>
Total capital assets, not being depreciated	4,078,555	3,090,966	(413,738)	6,755,783
Capital assets, being depreciated:				
Buildings	47,715,247	403,936	—	48,119,183
Fixed and movable equipment	<u>65,820,759</u>	<u>4,854,710</u>	<u>(511,084)</u>	<u>70,164,385</u>
Total capital assets, being depreciated	113,536,006	5,258,646	(511,084)	118,283,568
Less accumulated depreciation	<u>65,067,292</u>	<u>6,126,231</u>	<u>(511,005)</u>	<u>70,682,518</u>
Total capital assets, being depreciated, net	<u>48,468,714</u>	<u>(867,585)</u>	<u>(79)</u>	<u>47,601,050</u>
Total capital assets, net	\$ <u><u>52,547,269</u></u>	<u><u>2,223,381</u></u>	<u><u>(413,817)</u></u>	<u><u>54,356,833</u></u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(6) Long-term Debt

A summary of long-term debt at December 31, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Hospital Revenue Bonds, Series 2002, net of unamortized bond discount of \$42,059 at December 31, 2003; bearing interest at variable rates (1.32% at December 31, 2003), unless converted to a fixed rate in the future, through 2017	\$ 6,592,941	6,589,845
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$200,624 and \$213,362 at December 31, 2003 and 2002, respectively; bearing interest at rates ranging from 4.00% to 5.25% and maturing in varying amounts through 2019	17,994,376	18,701,638
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of \$163,731 and \$177,765 at December 31, 2003 and 2002, respectively; bearing interest at rates ranging from 4.5% to 6.5% and maturing in varying amounts through 2015	11,106,269	11,727,235
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85% to 6.50% and maturing in varying amounts through 2007	5,035,000	6,115,000
Capital lease obligations and other long-term debt	<u>1,415,311</u>	<u>1,411,042</u>
	42,143,897	44,544,760
Less current portion	<u>3,501,496</u>	<u>2,882,035</u>
	<u>\$ 38,642,401</u>	<u>41,662,725</u>

The Hospital Revenue Bonds Series 2002 (Series 2002 Bonds) were issued by the County of Portage, Ohio in 2002 for the purpose of providing funds to pay for costs in renovating, constructing and equipping the Radiology Department of the hospital and issuing the Series 2002 Bonds. The Series 2002 Bonds will be payable initially from the proceeds of draws under an irrevocable direct pay Letter of Credit. The hospital is required to meet certain covenants relating to, among other things, debt service coverage.

The Series 2002 Bonds consist of \$6,635,000 Outstanding Serial bonds, which mature, in increasing amounts from \$380,000 on November 15, 2004 to \$585,000 on November 15, 2017. Early redemption privileges are available.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

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The interest rate on the Series 2002 bonds is calculated using a weekly variable rate, which will be adjusted by the Remarketing Agent, initially, NatCity Investments, Inc. The average rate of the Series 2002 bonds at December 31, 2003 was 1.32%. The weekly variable rate cannot exceed the maximum interest rate of 10%.

The interest rate on the Series 2002 bonds will continue to be the weekly variable rate unless and until the interest rate on the Series 2002 bonds is converted to another interest rate or a fixed rate at the discretion of the Hospital. As with the weekly variable rate, these rates cannot exceed the maximum interest rate of 10%.

The Hospital Revenue Bonds, Series 1999 (Series 1999 Bonds) were issued by the County of Portage, Ohio (County) in 1999 for the purpose of providing funds to pay costs of Hospital facilities, including costs of constructing and equipping a new emergency room, improving and renovating the obstetrical department, improving the cardiopulmonary unit, and acquiring, constructing, and equipping certain other Hospital facilities. To secure the payment of Bond Service charges and the performance of their other obligations under the Indenture, the Board of Commissioners and Hospital Trustees have pledged, assigned, and granted a security interest in favor of Bank One, NA (Trustee) in the Net Hospital Receipts and the Special Funds, as defined in the 1999 Indenture. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

The Series 1999 Bonds consist of \$5,120,000 outstanding serial bonds which mature in increasing amounts from \$755,000 on November 15, 2003 to \$960,000 on November 15, 2009; \$5,650,000 term bonds due November 15, 2014; and \$7,425,000 term bonds due November 15, 2019. Early redemption privileges are available.

The Hospital Revenue Bonds, Series 1995 (Series 1995 Bonds) were issued by the County in 1995 to fund the cost associated with various Hospital construction projects including the construction of an ambulatory surgery center and an outpatient facility. The Series 1995 Bonds were issued on a parity with the County's \$13,110,000 Hospital Revenue Bonds, Series 1994 (Series 1994 Bonds).

The Series 1995 Bonds consist of \$1,390,000 outstanding serial bonds which mature in increasing amounts from \$675,000 on November 15, 2003 to \$715,000 on November 15, 2005; \$3,315,000 term bonds due November 15, 2009; and \$6,565,000 term bonds due November 15, 2015. Early redemption privileges are available.

The Series 1994 Bonds were issued in accordance with the requirements of the Trust Indenture dated November 15, 1985 (1985 Indenture). The Series 1994 Bonds constitute special obligations of the County payable solely from a pledge of funds on deposit with the Trustee and Net Hospital Receipts as defined in the 1985 Indenture. Under the provisions of the 1985 Indenture, the Hospital is required to make specific deposits to the Trustee. Monthly deposits into the Bond Fund are made in amounts sufficient to assure the payment of all interest and the redemption of the Bonds as set forth in the preceding paragraphs. The Hospital also is required to meet certain covenants relating to, among other things, debt service coverage.

The Series 1994 Bonds consist of \$1,150,000 outstanding serial bonds which mature on November 15, 2004 and \$3,885,000 term bonds due November 15, 2007. Early redemption privileges are available.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

At December 31, 2003, the fair value of the bonds of approximately \$44,465,000 exceeded the carrying value of approximately \$40,729,000.

The Hospital also entered into various capital lease obligations for the purchase of equipment. The term of the remaining leases extend three years and the implicit rate is 1.88%.

The following summarizes the outstanding long-term debt as of December 31, 2003 and 2002:

<u>2003</u>	<u>Date of issuance</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending balance</u>	<u>Due within one year</u>
Series 2002	8/1/2003	\$ 6,589,845	3,096	—	6,592,941	380,000
Series 1999	10/1/1999	18,701,638	—	(707,262)	17,994,376	755,000
Series 1995	9/1/1995	11,727,235	—	(620,966)	11,106,269	675,000
Series 1994	9/1/1994	6,115,000	—	(1,080,000)	5,035,000	1,150,000
Capital Lease	10/31/2001	1,277,961	—	(314,988)	962,973	326,582
Axis Nuclear System Capital Lease	12/11/1998	133,081	—	(133,081)	—	—
File Servers Capital Lease	2/1/2003	—	945,827	(493,489)	452,338	214,914
Total		\$ <u>44,544,760</u>	<u>948,923</u>	<u>(3,349,786)</u>	<u>42,143,897</u>	<u>3,501,496</u>
<u>2002</u>	<u>Date of issuance</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending balance</u>	<u>Due within one year</u>
Series 2002	8/1/2003	\$ —	6,635,000	(45,155)	6,589,845	—
Series 1999	10/1/1999	19,378,900	—	(677,262)	18,701,638	720,000
Series 1995	9/1/1995	12,318,201	—	(590,966)	11,727,235	635,000
Series 1994	9/1/1994	7,140,000	—	(1,025,000)	6,115,000	1,080,000
Capital Lease	10/31/2001	1,580,768	—	(302,807)	1,277,961	313,954
Axis Nuclear System	12/11/1998	263,459	—	(130,378)	133,081	133,081
AS 400 Upgrade	3/1/1998	17,087	—	(17,087)	—	—

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

The revenue bond amortization requirements as of December 31, 2003 are as follows:

<u>January 1</u>	<u>Total revenue bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,960,000	1,981,430
2005	3,120,000	1,809,731
2006	3,295,000	1,639,816
2007	3,455,000	1,476,946
2008	2,195,000	1,311,955
2009	2,300,000	1,218,083
2010	2,415,000	1,118,458
2011	2,550,000	1,008,098
2012	2,680,000	891,248
2013	2,820,000	767,893
2014	2,970,000	637,483
2015	3,125,000	722,728
2016	1,965,000	350,750
2017	2,065,000	270,250
2018	1,565,000	185,150
2019	1,655,000	95,162
	<u>\$ 41,135,000</u>	<u>15,485,181</u>

The capital lease requirements as of December 31, 2003 are as follows:

<u>January 1</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 541,496	38,806
2005	531,980	21,551
2006	341,835	5,387
	<u>\$ 1,415,311</u>	<u>65,744</u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2003 and 2002

(7) Employee Benefit Plans

Substantially all of the Hospital's employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer, public employee retirement system. Employer and employee required contributions to PERS are established by the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Required contributions to PERS are used to fund retirement and disability benefits, annual cost-of-living adjustments, death benefits to plan members and beneficiaries, and health care programs. Total required employer contributions made were \$6,145,000 in 2003, \$6,136,000 in 2002 and \$6,013,000 in 2001. Employer contributions represented 13.55% of covered payroll in 2002 and 2001 and for the period January through June 2000, but were temporarily reduced to 8.13% from July through December of 2000. Employee contributions were \$3,936,000 in 2003, \$3,907,000 in 2002 and \$3,743,000 in 2001, representing 8.5% of covered payroll. Approximately 95.4% of the contributions as a percentage of covered payroll were used to fund pension obligations; the remaining amounts were used to fund health care programs for retired members.

The Hospital's payroll for employees covered by PERS for the years ended December 31, 2003 and 2002, was approximately \$46,305,000 and \$45,961,000, respectively. The Hospital's total payroll was approximately \$50,310,000 in 2003 and \$49,684,000 in 2002.

In addition to the pension benefits described above, the Hospital provides postretirement health care 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, 2002, 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 health care benefits, in millions of dollars, is presented below:

Accrued postretirement health care liability	\$	18,700
Net assets available for benefits		<u>10,000</u>
Unfunded actuarial accrued liability	\$	<u><u>8,700</u></u>

The benefits are advance-financed on an actuarially determined basis. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. As of December 31, 2003, there are 364,881 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 5.00% for the years 2003 and 2002, respectively, were actually made to fund postretirement health care benefits.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(8) 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 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. The change in the liability for self-insurance is as follows:

	<u>2003</u>	<u>2002</u>
Beginning balance	\$ 2,100,000	2,786,000
Provision (benefit) for self-insurance	(250,000)	(247,000)
Claims paid and other	<u>—</u>	<u>(439,000)</u>
Ending balance	\$ <u>1,850,000</u>	<u>2,100,000</u>

For the years ended December 31, 2003 and 2002, the Hospital's self insured retention limits are \$3 million per occurrence and \$9 million in the aggregate. The Hospital established an irrevocable trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

(9) 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, 2003 and 2002, the liability for unpaid compensated absences was \$2,561,384 and \$2,449,361, respectively.

(10) 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 revenues to the Hospital under the Care Assurance Program aggregated \$1.3 million and \$1.2 million in 2003 and 2002, respectively. The Hospital records the net proceeds in other revenue as funds are received.



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

The Board of Trustees
Robinson Memorial Portage County Hospital:

We have audited the financial statements of Robinson Memorial Portage County Hospital (Hospital) as of and for the year ended December 31, 2003, and have issued our report thereon dated March 12, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Hospital in a separate letter dated March 12, 2004.

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

KPMG LLP

March 12, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



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**ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL
STARK 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
NOVEMBER 16, 2004**