KPMG

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Basic Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

Auditor of State
Betty Montgomery

Board of Trustees
Robinson Memorial Portage County Hospital
6847 N. Chestnut St.
Ravenna, Ohio 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, 2004 to December 31, 2004. 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

August 16, 2005

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Table of Contents

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, 2004 and 2003. 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 2004, total assets decreased $2.5 million over 2003 levels. Total cash and investments on hand at December 31, 2004 decreased $2.7 million over December 31, 2003. Net accounts receivable decreased $0.7 million. Net days revenue in accounts receivable was 52.6 days at December 31, 2004, compared to 57.2 days at December 31, 2003, and 49.0 days in 2002.
- 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 account receivable increased $3.1 million.
- Total liabilities decreased $2.5 million; current liabilities increased $0.4 million; long-term liabilities decreased $2.9 million from December 31, 2003 to December 31, 2004.

  Total liabilites 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 $8.7 million during 2004, compared to $14.4 million in 2003.
- There was no new debt entered into during 2004. In 2003, $0.6 million was added for Management Information Systems file servers. The debt is a capital lease for 36 months with an implicit rate of 1.88%.
- Net cash provided by operating activities was $9.3 million in 2004 versus $7.3 million in 2003.
- Operating loss was approximately $.3 million in 2004 compared to approximately $2.1 million of operating income in 2003.

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.

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.

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 remained constant at $108.6 million at December 31, 2004 and at December 31, 2003. Total Net Assets increased $2.6 million from December 31, 2003 to December 31, 2002. Table 1 provides a summary of the Hospital's Total Net Assets at December 31, 2004 compared to December 31, 2003, and December 31, 2003 compared to December 31, 2002.

Table 1

Net Assets (In thousands)

		December 31		
		2004	**2003**	**2002**
Assets:				
Current Assets	$	30,392	29,991	26,270
Assets Whose Use is Limited		68,130	71,731	81,713
Other Assets		2,183	2,308	2,500
Capital Assets		63,368	62,592	54,357
Total Assets		164,073	166,622	164,840
Liabilities:				
Current Liabilities		17,822	17,432	15,012
Long-term Debt		35,032	38,642	41,663
Other long-term liabilities		2,635	1,926	2,206
Total Liabilities		55,489	58,000	58,881
Net Assets:				
Unrestricted		81,300	83,729	86,947
Invested in Capital Assets, Net of Related Debt		24,875	22,839	17,444
Restricted		2,409	2,054	1,568
Total Net Assets	$	108,584	108,622	105,959
Total Liabilities & Net Assets	$	164,073	166,622	164,840

(Continued)

In 2004, the Hospital's cash and investment position decreased $2.8 million from 2003 and in 2003 increased from 2002 (in thousands).

Accounts		2004	2003	2002
Operating Cash	$	6,527	6,468	6,382
Assets Whose Use is Limited		68,130	71,731	75,732
Trustee Bond Funds (for current liabilities)		641	638	6,373
Total Available Cash	$	75,298	78,837	88,487

The Hospital maintains sufficient cash balances in Operating Cash (Current assets) to cover approximately 20 days of expenses. All excess cash is transferred to Assets Whose Use is Limited for future needs. Trustee Bond Funds include bond proceeds and debt service funds. The decrease in Assets Whose Use is Limited and Trustee Bond Funds is due to capital expenditures which was not funded from operating cash flow.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, decreased from December 31, 2004 to December 31, 2003 by $0.7 million due to improved cash collections. Days in receivables decreased by 4.6 days and the aging of receivables improved which management believes indicates a higher probability of collectibility. Patient accounts receivable, net of allowance for uncollectibles, increased by $3.1 million between December 31, 2002 and December 31, 2003.

Capital Assets

Capital assets increased from $62.6 million in 2003 to $63.4 million in 2004. The increase relates to $8.2 million in capital additions, offset by $7.4 million in depreciation expense. Capital additions primarily include Radiology Department construction and equipment, cardiac cathorization laboratory, new parking lot, renovation of front lobby and gift shop and several information systems additions and upgrades.

Capital assets increased from $54.4 million in 2002 to $62.6 million in 2003. The increase related to $14.4 million in capital additions, offset by $6.2 million in depreciation expense. The capital additions include Radiology Department construction and equipment, critical care furnishings, 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	2004	2003	2002	Covenant
Days cash on hand	216.10	217.90	251.00	100.00
Maximum debt service coverage	2.02	2.53	2.68	1.50
Historical debt service coverage	2.03	2.90	3.22	1.00
Cushion	12.70	11.03	12.23	1.50

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2004 compared to 2003 and 2002.

Table 2

Revenue and Expenses (In thousands)

		2004	2003	2002
Net Patient Service Revenue	$	123,531	118,123	114,105
Other		3,843	3,017	3,286
Total operating revenue	$	127,374	121,140	117,391
Operating Expenses:				
Salaries & Wages		52,777	50,310	49,684
Employee Benefits		16,099	16,072	14,477
Supplies and other expenses		27,686	24,354	23,361
Professional Fees		8,238	7,627	7,086
Utilities		2,084	2,005	1,916
Pharmaceuticals		5,047	4,686	4,652
Depreciation/Amortization		8,042	6,875	6,233
Provision for bad debts		7,743	7,157	7,417
Total operating expenses	$	127,716	119,086	114,826
Operating Income (loss)		(342)	2,054	2,565
Nonoperating revenues and expenses:				
Investment and other income, net		4,218	4,042	5,174
Interest expense		(2,236)	(2,363)	(2,402)
Change in net unrealized gains and losses		(1,952)	(1,518)	959
Income (loss) before other revenue, expenses, gains and losses		(312)	2,215	6,296
Gifts, grants, and bequests		274	448	222
Increase in net assets		(38)	2,663	6,518
Total net assets, beginning of year	$	108,622	105,959	99,441
Total net assets, end of year	$	108,584	108,622	105,959

Net Patient Service Revenues

Net patient service revenues increased $5.4 million or 4.6% in 2004 as compared to 2003 and $4.0 million or 3.5% in 2003 as compared to 2002.

Gross patient service revenues increased $23.2 million or 9.3% in 2004 versus 2003. On January 1, 2004, the Hospital Board of Trustees approved a 5% price increase. This price increase accounts for approximately $12.5 million of additional gross patient service revenues generated by the Hospital. Higher volumes in areas such as the Laboratory, Radiology areas, Outpatient Operating Room, Endoscopy and Visiting Nurse and Hospice, generated approximately $10.8 million in actual business growth in gross patient service revenue in 2004 as compared to 2003.

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.

Inpatient Business Activity

Total admissions in 2004 remained constant at the 2003 level and decreased 2.7% in 2003 as compared to 2002 (in thousands):

	2004	2003	2002	2004 to 2003 % Change
Internal medicine	$ 3,429	3,126	2,676	9.7%
General surgery	701	804	884	(12.8)%
Pulmonary medicine	242	275	301	(12.0)%
Urology	43	39	53	10.3%
Oncology	184	147	163	25.2%
Other	19	21	35	(9.5)%
Gastroenterology	46	35	54	31.4%
Neurology	55	82	98	(32.9)%
Cardiovascular surgery	144	166	179	(13.3)%
Otolaryngology	42	43	32	(2.3)%
Cardiology	351	329	456	6.7%
Pediatrics	635	664	731	(4.4)%
Orthopedics	287	321	371	(10.6)%
OB/GYN	883	915	952	(3.5)%
Family practice	1,941	2,039	2,271	(4.8)%
Total	9,002	9,006	9,256	(0.0)%

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Total patient days (excluding Newborn) declined by 140 days in 2004 and 451 days in 2003. Length of stay (LOS) for Hospital inpatient has remained relatively stable over the three-year period as shown below:

	Patient Days		
Specialty	**2004**	**2003**	**2002**
Medical/Surgical	28,081	27,987	27,980
Critical Care	3,421	3,572	3,923
Pediatrics	247	337	486
Obstetrics	1,887	1,880	1,838
Newborn	1,260	1,432	1,481
Total	34,896	35,208	35,708

	Average Length of Stay		
Specialty	**2004**	**2003**	**2002**
Medical/Surgical	4.9	5.0	5.0
Critical Care	2.0	2.1	2.1
Pediatrics	1.8	1.8	1.8
Obstetrics	2.3	2.3	2.3
Newborn	2.2	2.1	2.1

The decrease in inpatient admissions and days in 2004 can be attributed mainly to Newborns and Pediatrics. 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 3.3% from 2003 to 2004 and an increase of 3.8% from 2002 to 2003, indicating that the patients admitted to the Hospital were more acutely ill in each of the last two years...

During February of 2004, Robinson Memorial Hospital entered into a lease with Regency Hospital for a portion of the hospital facilities. Regency runs an 18 bed Long Term Acute Care Hospital in that space and this has allowed the hospital to transfer patients who would have remained in the hospital to Regency. This accounts for the decreased length of stay even though case mix continues to increase.

Outpatient Business Activity

The Hospital’s outpatient gross revenue increased 7%, net of the overall 5% price increase, in 2004 after increasing 6.5% in 2003. Areas that recorded the largest increase in revenues during 2004 were the Physician Practices, Laboratory, Operating room, Radiology including CT scans and MRI, Endoscopy and the Cardiac Cath Lab. Several new physicians joined our practice locations in the past two years, including an OB/GYN, orthopedic surgeon, and internal medicine physicians.

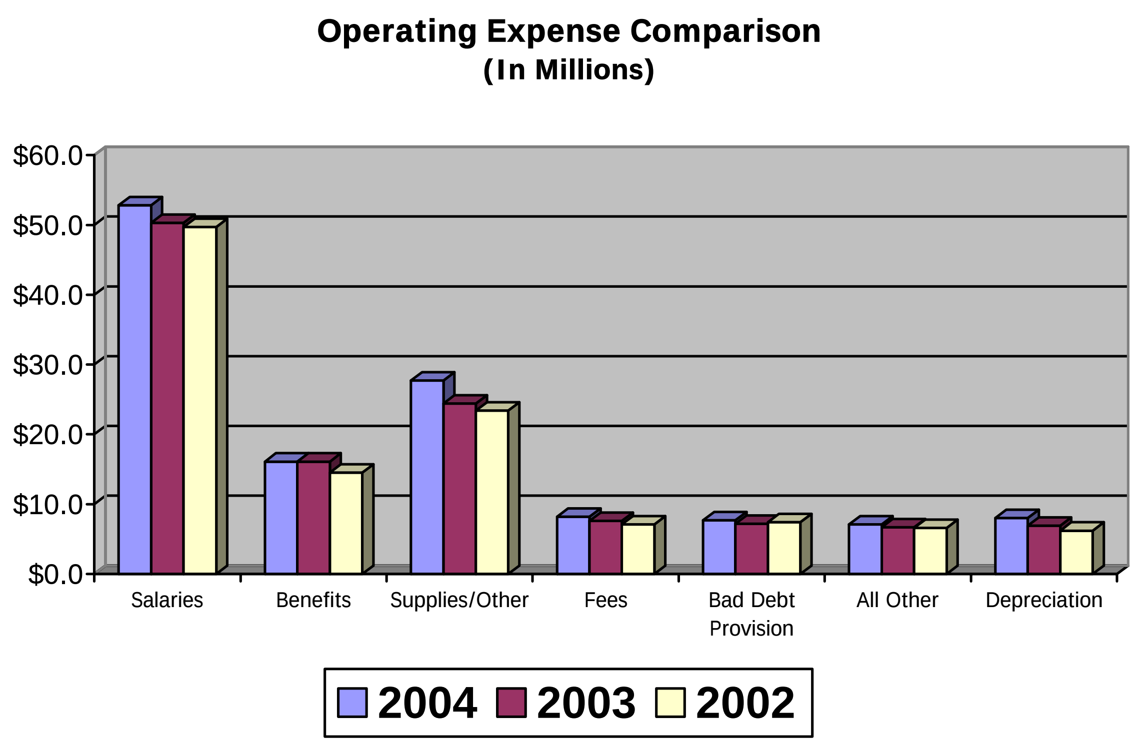
Deductions from Revenue

Contractual service adjustments, expressed as a percentage of gross revenues were recorded at 52.5% in 2004 compared to 50.6% in 2003. In 2002, deductions from revenue were recorded at 49.4%. This increase in contractual service adjustments is due to the price increases approved in 2004 and 2003, respectively, by the Board of Trustees, which exceed increased reimbursements from Medicare and Medicaid, and changes in negotiated third-party insurers.

Charity care for 2004 increased $0.5 million over the 2003 level, which exceeded the 2002 level by $1.5 million. 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 2004, the Hospital received $1.2 million from the Ohio Care Assurance Program, compared to $1.3 million in 2003, and $1.2 million in 2002.

Operating Expenses

Total operating expenses in 2004 exceeded 2003 levels by $8.6 million or 7.2% due to increased volumes as demonstrated by the growth in gross revenues. In 2003, total operating expenses were $4.2 million or 3.7% higher than 2002.



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(in thousands)		2004	2003	2002
Salaries	$	52,777	50,310	49,684
Employee benefits		16,099	16,072	14,477
Supplies and other		27,686	24,354	23,361
Professional fees		8,238	7,628	7,085
Provision for bad debts		7,743	7,157	7,417
Depreciation & Amortization		8,042	6,875	6,233
All other expenses		7,131	6,691	6,568

The largest increases in operating expenses in 2004 over 2003 levels are reflected in supplies and other expense which increased $3.3 million, Salaries which increased $2.5 million or 4.9%, resulting from a rate increase of approximately 3.5%, plus additional staffing related to higher volumes, and Depreciation and Amortization which increased $1.2 million.

The major increases in 2003 over 2002 are in benefits, supplies and other expenses.

Employee Benefits

Overall, Hospital benefit cost remained constant in 2004 as compared to an 11.0% increase in 2003. 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. 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. The favorable impact of this third party administrator change was offset by the increase in health care insurance purchased for the physician practice employees and an increase in workers compensation costs.

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.

Supply and Other Expenses

Supply and other expense cost increased $3.3 million or 13.7% in 2004 over the 2003 level. During 2004, the hospital continued to see 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 roughly 30% of the increase in supply costs. Other increases included maintenance contracts on new equipment, clinical lab fees and malpractice insurance.

Supply and other expenses increased 4.3% between 2003 and 2002 mainly due to growth in the number of procedures performed in the Cardiac Catheterization Laboratory, which accounts for more than one-half of the increase in supply costs. In addition, Rent expense increased in 2003 as the Hospital expands service locations throughout the Portage County area.

Depreciation and Amortization

The increase is mainly due to the renovation and equipping of the Radiology department which was completed in early 2004 and several other large projects. See “Capital Assets” above.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2005-operating budget at their October 2004 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 an operating income of $1.9 million, a 1.5% operating margin. New volumes are projected in the 2005 budget from the addition of various physicians to the community. In addition cost containment measures and continued renegotiations of managed care contracts is expected to contribute to the positive operating results. The 2005 operating budget projects a $5.3 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, 2004 and 2003, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2004 and 2003, and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 18, 2005

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Balance Sheets

December 31, 2004 and 2003

Assets		2004	2003
Current assets:			
Cash and cash equivalents	$	7,364,471	6,543,043
Assets limited as to use – required for current liabilities		641,051	637,632
Patient accounts receivable, less allowance for estimated uncollectible accounts of approximately $2,476,677 in 2004 and $2,002,000 in 2003		17,751,841	18,431,215
Estimated third-party payor settlements		70,449	—
Supplies and other current assets		4,563,692	4,379,617
Total current assets		30,391,504	29,991,507
Noncurrent assets limited as to use or restricted (notes 4 and 8)		68,130,167	71,730,817
Capital assets, net (note 5)		63,368,187	62,591,633
Other assets		2,183,317	2,308,880
Total assets	$	164,073,175	166,622,837
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt (note 6)	$	3,678,707	3,501,496
Accounts payable		5,659,752	5,692,668
Accrued employee compensation		1,939,556	1,907,835
Accrued employee compensated absences		3,097,087	3,031,682
Accrued expenses		3,446,736	3,203,702
Estimated third-party payor settlements		—	94,509
Total current liabilities		17,821,838	17,431,892
Long-term debt (note 6)		35,032,526	38,642,401
Self-insurance and other liabilities (note 8)		2,634,634	1,926,053
Total liabilities		55,488,998	58,000,346
Commitments and contingencies (notes 3, 7, and 8)			
Net assets:			
Invested in capital assets, net of related debt		24,875,364	22,839,470
Restricted – by donor for specific uses		2,408,461	2,054,180
Unrestricted		81,300,352	83,728,841
Total net assets		108,584,177	108,622,491
Total liabilities and net assets	$	164,073,175	166,622,837

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Net patient service revenue	$ 123,530,573	118,122,723
Other	3,843,509	3,017,340
Total operating revenues	127,374,082	121,140,063
Operating expenses:		
Salaries and wages	52,777,270	50,309,586
Employee benefits	16,098,706	16,071,725
Supplies and other expenses	27,685,691	24,354,348
Professional services	8,238,396	7,627,589
Utilities	2,084,381	2,005,160
Pharmaceutical	5,046,523	4,685,961
Depreciation and amortization	8,041,920	6,874,856
Provision for bad debts	7,743,455	7,156,644
Total operating expenses	127,716,342	119,085,869
Operating income	(342,260)	2,054,194
Nonoperating revenues and expenses:		
Investment and other income, net	4,217,682	4,041,695
Interest expense	(2,235,654)	(2,363,203)
Change in net unrealized gains and losses	(1,951,438)	(1,517,212)
Income before other revenues, expenses, gains and losses	(311,670)	2,215,474
Gifts, grants and bequests	273,356	447,976
(Decrease) increase in net assets	(38,314)	2,663,450
Total net assets, beginning of year	108,622,491	105,959,041
Total net assets, end of year	$ 108,584,177	108,622,491

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Cash Flows

Years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from patients	$ 116,301,534	108,046,301
Other cash receipts	3,843,509	3,017,340
Cash payments to suppliers	(42,169,627)	(38,650,342)
Cash payments to employees	(68,778,850)	(65,088,199)
Net cash provided by operating activities	9,196,566	7,325,100
Cash flows from noncapital financing activities:		
Gifts, grants and bequests received	273,356	447,976
Net cash provided by noncapital financing activities	273,356	447,976
Cash flows from capital and related financing activities:		
Purchase of property	(8,696,378)	(14,427,079)
Principal paid on debt	(3,596,818)	(3,102,109)
Interest paid on debt	(2,218,773)	(2,344,536)
Net cash used in capital and related financing activities	(14,511,969)	(19,873,724)
Cash flows from investing activities:		
Purchases of investments	(8,319,477)	(6,094,000)
Sale of investments	7,717,305	4,821,375
Investment and other income	4,217,682	4,041,695
Change in assets limited as to use	2,247,965	9,492,599
Net cash provided by investing activities	5,863,475	12,261,669
Net increase in cash and cash equivalents	821,428	161,021
Cash and cash equivalents at beginning of year	6,543,043	6,382,022
Cash and cash equivalents at end of year	$ 7,364,471	6,543,043

Reconciliation of operating income to net cash provided by operating activities:

	2004	2003
Operating income	$ (342,260)	2,054,194
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,041,920	6,874,856
Provision for bad debts	7,743,455	7,156,644
Changes in assets and liabilities:		
Accounts receivable	(7,064,081)	(10,269,263)
Supplies and other current assets	(184,075)	(303,669)
Other assets	167,622	191,407
Accounts payable	(32,917)	514,653
Compensated absences	535,703	582,321
Accrued expenses	226,153	247,522
Estimated third party payor settlements	(164,958)	195,319
Accrued employee compensation	(438,577)	360,791
Other liabilities	708,581	(279,675)
Net cash provided by operating activities	$ 9,196,566	7,325,100

See accompanying notes to financial statements.

(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), and Robinson Health Affiliates, Inc. 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 $38,954 and $168,244, at December 31, 2004 and 2003, respectively.

On July 1, 2004, the Hospital entered into a ten year affiliation agreement with Akron General Medical Center (AGMC), the purpose for 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% representation in a management committee which will oversee operations of RROC and have agreed to distribute equally the excess revenues over expenses derived from RROC. RROC became operational January 1, 2005. At December 31, 2004, the hospital has recorded an asset of $100,000 equal to the investment of capital and a $150,000 receivable from RROC for the cost incurred by the Hospital on its behalf.

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 Statements 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.

(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 nonoperating.

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

(Continued)

(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 at $234,000 and $287,000 for the years ended December 31, 2004 and 2003, 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.

(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 30% and 27% of the Hospital's net patient service revenue for the years ended December 31, 2004 and 2003, respectively. Medicaid revenue accounted for approximately 8% and 7% for the years ended December 31, 2004 and 2003, respectively, and Medical Mutual of Ohio revenue accounted for approximately 26% and 24% for the years ended December 31, 2004 and 2003, respectively. Excluding Medicare and Medical Mutual of Ohio, 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.

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 and other fixed income 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.

(Continued)

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.

	Category 1	Category 2	Fair value
2004:			
Unrestricted:			
Insured deposits	$ 120,490	—	120,490
U.S. Treasury obligations	73,332,110	—	73,332,110
Equity securities	436,427	—	436,427
	73,889,027	—	73,889,027
STAR Ohio			320,237
Petty cash			6,026
			74,215,290
Restricted:			
Insured deposits	235,216	—	235,216
Uninsured deposits	—	104,006	104,006
U.S. Treasury obligations	650,288	—	650,288
Equity securities	769,192	—	769,192
Subtotal	1,654,696	104,006	1,758,702
STAR Ohio			161,697
Total cash and investments			$ 76,135,689

		Category 1	Category 2	Fair value
2003:				
Unrestricted:				
Insured deposits	$	120,490	—	120,490
U.S. Treasury obligations		76,268,383	—	76,268,383
Equity securities		438,327	—	438,327
		76,827,200	—	76,827,200
STAR Ohio		—	—	309,440
Petty cash		—	—	5,894
				77,142,534
Restricted:				
Insured deposits		137,221	—	137,221
Uninsured deposits		—	145,036	145,036
U.S. Treasury obligations		640,556	—	640,556
Equity securities		686,490	—	686,490
Subtotal		1,464,267	145,036	1,609,303
STAR Ohio				159,655
Total cash and investments			$	78,911,492

(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 $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

(s) Goodwill

Goodwill amounting to $969,000 and $1,095,000 at December 31, 2004 and 2003, 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.

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.

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.

(t) 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 supplies and other current assets on the balance sheet.

Outstanding pledges receivable from various corporations, foundations and individuals at December 31, 2004 and December 31, 2003 are as follows:

		2004	2003
Pledges due:			
In less than one year	$	88,381	99,200
In one to five years		495,085	360,352
		583,466	459,552
Allowance for doubtful pledges		(11,669)	(9,191)
	$	571,797	450,361

(u) Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

(2) Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2004 and 2003, the estimated charges forgone of providing charity care services and supplies were approximately $5,542,000 and $5,046,000, 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. 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 2002 and the Medicaid program through 1999. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

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

(Continued)

(4) Assets Limited as to Use or Restricted

As of December 31, 2004 and 2003, assets limited as to use or restricted have been set aside at fair value as follows:

		2004	2003
Board of trustees:			
Excess and funded depreciation	$	58,635,662	60,363,472
Self-insurance trust		5,809,024	6,132,954
Funds held by trustee under bond indenture		754,692	3,029,367
Total assets limited to use by board designation		65,199,378	69,525,793
By donor			
Unrestricted		1,651,442	1,073,699
Restricted		1,920,398	1,768,957
Total by donor		3,571,840	2,842,656
Total assets limited as to use or restricted		68,771,218	72,368,449
Less assets limited as to use or restricted – required for current liabilities		641,051	637,632
	$	68,130,167	71,730,817

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.

(5) Capital Assets

Capital assets consist of the following at December 31, 2004 and 2003:

2004		Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:					
Land and land improvements	$	3,416,030	864,523	—	4,280,553
Construction in progress		1,329,220	—	(1,329,220)	—
Total capital assets, not being depreciated		4,745,250	864,523	(1,329,220)	4,280,553
Capital assets, being depreciated:					
Buildings		54,815,851	3,038,617	—	57,854,468
Fixed and movable equipment		79,905,329	6,107,758	(436,705)	85,576,382
Total capital assets, being depreciated		134,721,180	9,146,375	(436,705)	143,430,850
Less accumulated depreciation		76,874,797	7,921,497	(453,078)	84,343,216
Total capital assets, being depreciated, net		57,846,383	1,224,878	16,373	59,087,634
Total capital assets, net	$	62,591,633	2,089,401	(1,312,847)	63,368,187
2003					
Capital assets, not being depreciated:					
Land and land improvements	$	3,339,485	76,545	—	3,416,030
Construction in progress		3,416,298	—	(2,087,078)	1,329,220
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		70,164,385	10,308,901	(567,957)	79,905,329
Total capital assets, being depreciated		118,283,568	17,222,576	(784,964)	134,721,180
Less accumulated depreciation		70,682,518	6,708,773	(516,494)	76,874,797
Total capital assets, being depreciated, net		47,601,050	10,513,803	(268,470)	57,846,383
Total capital assets, net	$	54,356,833	10,590,348	(2,355,548)	62,591,633

(6) Long-Term Debt

A summary of long-term debt at December 31, 2004 and 2003 is as follows:

		2004	2003
Hospital Revenue Bonds, Series 2002, bearing interest at variable rates (1.98% at December 31, 2004), unless converted to a fixed rate in the future, through 2017	$	6,255,000	6,635,000
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of $187,886 and $200,624 at December 31, 2004 and 2003, respectively; bearing interest at rates ranging from 4.00% to 5.25% and maturing in varying amounts through 2019		17,252,115	17,994,376
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of $149,697 and $163,731 at December 31, 2004 and 2003, respectively; bearing interest at rates ranging from 4.5% to 6.5% and maturing in varying amounts through 2015		10,445,303	11,106,269
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85% to 6.50% and maturing in varying amounts through 2007		3,885,000	5,035,000
Capital lease obligations and other long-term debt		873,815	1,415,311
		38,711,233	42,185,956
Less current portion		3,678,707	3,501,496
	$	35,032,526	38,684,460

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 $390,000 on November 15, 2005 to $585,000 on November 15, 2017. Early redemption privileges are available.

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The interest rate on the Series 2002 bonds is calculated using a weekly variable rate, adjusted by the Remarketing Agent. The average rate of the Series 2002 bonds at December 31, 2004 was 1.26%. 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 $4,365,000 outstanding serial bonds which mature in increasing amounts from $790,000 on November 15, 2005 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 $715,000 outstanding serial bonds which mature 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 $3,885,000 term bonds due November 15, 2007. Early redemption privileges are available.

(Continued)

At December 31, 2004, the fair value of the bonds of approximately $40,974,290 exceeded the carrying value of approximately $37,837,000.

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

The following summarizes the outstanding long-term debt as of December 31, 2004 and 2003:

2004	Date of issuance	Beginning balance	Additions	Paid or Retired	Ending balance	Due within one year
Series 2002	8/1/2003	$ 6,635,000	—	(380,000)	6,255,000	390,000
Series 1999	10/1/1999	17,994,376	—	(742,261)	17,252,115	790,000
Series 1995	9/1/1995	11,106,269	—	(660,966)	10,445,303	715,000
Series 1994	9/1/1994	5,035,000	—	(1,150,000)	3,885,000	1,225,000
Capital Lease	10/31/2001	962,973	—	(326,582)	636,391	339,718
File Servers Capital Lease	2/1/2003	452,338	—	(214,914)	237,424	218,989
Total		$ 42,185,956	—	(3,474,723)	38,711,233	3,678,707

2003	Date of issuance	Beginning balance	Additions	Paid or Retired	Ending balance	Due within one year
Series 2002	8/1/2003	$ 6,635,000	—	—	6,635,000	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		$ 44,589,915	945,827	(3,349,786)	42,185,956	3,501,496

(Continued)

The revenue bond amortization requirements as of December 31, 2004 are as follows:

	Total revenue bonds		
January 1	**Principal**	**Interest**	**Total**
2005	$ 3,120,000	1,908,482	5,028,482
2006	3,295,000	1,749,257	5,044,257
2007	3,455,000	1,586,954	5,041,954
2008	2,195,000	1,415,707	3,610,707
2009	2,300,000	1,315,154	3,615,154
2010	2,415,000	1,208,415	3,623,415
2011	2,550,000	1,090,446	3,640,446
2012	2,680,000	965,489	3,645,489
2013	2,820,000	833,565	3,653,565
2014	2,970,000	694,061	3,664,061
2015	3,125,000	546,685	3,671,685
2016	1,965,000	387,540	2,352,540
2017	2,065,000	296,271	2,361,271
2018	1,565,000	185,150	1,750,150
2019	1,655,000	95,162	1,750,162
	$ 38,175,000	14,278,338	52,453,338

The capital lease requirements as of December 31, 2004 are as follows:

January 1	**Principal**	**Interest**	**Total**
2005	$ 558,707	21,551	580,258
2006	315,108	5,387	320,495
	$ 873,815	26,938	900,753

(Continued)

(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 $6,572,000 in 2004, $6,145,000 in 2003 and $6,136,000 in 2002. Employer contributions represented 13.55% of covered payroll in 2004, 2003 and 2002. Employee contributions were $4,123,000 in 2004, $3,936,000 in 2003 and $3,907,000 in 2002, representing 8.5% of covered payroll. Approximately 96.0% 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, 2004 and 2003, was approximately $48,503,000 and $46,305,000, respectively. The Hospital's total payroll was approximately $52,777,000 in 2004 and $50,310,000 in 2003.

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, 2003, 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	$	26,900
Net assets available for benefits		10,500
Unfunded actuarial accrued liability	$	16,400

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, 2004, there are 369,885 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 4% and 5% for the years 2004 and 2003, respectively, were actually made to fund postretirement health care benefits.

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

		2004	2003
Beginning balance	$	1,850,000	2,100,000
Provision (benefit) for self-insurance		886,250	(250,000)
Claims paid and other		(148,026)	—
Ending balance	$	2,588,224	1,850,000

For the years ended December 31, 2004 and 2003, 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, 2004 and 2003, the liability for unpaid compensated absences was $3,097,087 and $2,561,384, 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 $1.2 million and $1.3 million in 2004 and 2003, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

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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*

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, 2004, and have issued our report thereon dated March 18, 2005. 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 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

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 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 that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Hospital in a separate letter dated March 18, 2005.

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 18, 2005

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

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
AUGUST 30, 2005