

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2012**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Robinson Memorial Portage County Hospital and Affiliates, Portage County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 18, 2013

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Robinson Memorial Portage County Hospital and Affiliates

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Robinson Memorial Portage County Hospital and Affiliates (the "Hospital"), a component unit of Portage County, as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Robinson Memorial Portage County Hospital as of December 31, 2012 and 2011 and the respective changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, Robinson Memorial Portage County Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during 2012. Our opinion is not modified with respect to this matter.

Other Matters

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013 on our consideration of the Robinson Memorial Portage County Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Robinson Memorial Portage County Hospital's internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 24, 2013

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital and Affiliates' (the "Hospital") financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2012, 2011, and 2010. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also read the basic financial statements and the accompanying notes to enhance their understanding of the Hospital's financial performance. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with management's discussion and analysis.

Overview of the Financial Statements

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

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

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

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

On November 13, 2012, the Board of County Commissioners approved the conversion of the Hospital from a county hospital to a private nonprofit corporation through lease of existing hospital facilities known as Robinson Memorial Hospital to a newly created entity named Robinson Health System, Inc. (RHS). The lease commencement date is within 90 days after RHS is granted exemption from taxation as a nonprofit Section 501(c)(3) organization. RHS filed its request for exemption on January 28, 2013 and hopes to gain exemption in the latter part of 2013.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007, which was renewed in 2010 and expires December 31, 2013, to provide improved quality of and access to health care in the communities served by the Hospital and Summa, expand healthcare services offered in Portage County and surrounding communities, and deliver healthcare services more efficiently and cost effectively.

The affiliation agreement includes an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2012 and 2011, the Hospital incurred costs related to the affiliation fee of \$50,000 per year.

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

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

Financial Analysis of the Hospital

Robinson Memorial Portage County Hospital's total net position decreased by \$6.7 million to \$133.5 million at December 31, 2012 from \$140.2 million at December 31, 2011.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

In 2012, total assets and deferred outflows of resources decreased by \$19.7 million from 2011 levels. In 2011, total assets and deferred outflows of resources decreased \$38.3 million from 2010 levels.

In 2012, other current assets decreased \$10.2 million mainly due to decreases in securities lending of \$9.9 million. The Hospital engages in securities lending activities whereby certain securities are loaned to other institutions. The Hospital receives as collateral the market value of the securities, plus 2 percent, and is obligated to return the collateral upon return of the borrowed securities. The value of these securities is included in both current assets and current liabilities at the fair value of the collateral of \$1.8 million in 2012, \$11.6 million in 2011, and \$34.2 million in 2010.

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

In 2011, total liabilities and deferred inflows of resources decreased \$35.9 million, current liabilities decreased \$25.5 million, mainly due to securities lending programs, and long-term debt decreased \$14.1 million due to principal payments made on Hospital debt, of which \$10.0 million was due to early redemption of the 1999 Bonds.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Table I provides a summary of the Hospital's total net position at December 31, 2012 compared to December 31, 2011 and 2010.

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

	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 7,669	\$ 8,896	\$ 8,140
Net accounts receivable	15,018	18,300	22,129
Other current assets	7,740	17,555	40,303
Assets limited as to use	57,958	60,569	83,046
Other assets	4,787	3,508	2,459
Capital assets	<u>123,137</u>	<u>126,985</u>	<u>122,018</u>
Total assets	216,309	235,813	278,095
Deferred Outflows of Resources			
	<u>8,134</u>	<u>8,296</u>	<u>4,310</u>
Total assets and deferred outflows of resources	<u>\$ 224,443</u>	<u>\$ 244,109</u>	<u>\$ 282,405</u>
Liabilities			
Current liabilities	\$ 20,631	\$ 30,739	\$ 56,197
Long-term debt	59,915	62,715	76,839
Other long-term liabilities	<u>1,771</u>	<u>2,141</u>	<u>2,424</u>
Total liabilities	82,317	95,595	135,460
Deferred Inflows of Resources			
	<u>8,600</u>	<u>8,296</u>	<u>4,310</u>
Total liabilities and deferred inflows of resources	90,917	103,891	139,770
Net Position			
Unrestricted	70,458	70,765	83,694
Net investment in capital assets	59,908	66,417	55,328
Restricted	<u>3,160</u>	<u>3,036</u>	<u>3,613</u>
Total net position	<u>133,526</u>	<u>140,218</u>	<u>142,635</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 224,443</u>	<u>\$ 244,109</u>	<u>\$ 282,405</u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

In 2012, the Hospital's cash and investment position decreased by \$3.5 million from 2011 and in 2011 decreased by \$21.8 million from 2010.

Cash and Investment Accounts (amounts in thousands)

	2012	2011	2010
Operating cash	\$ 7,669	\$ 8,896	\$ 8,140
Assets limited as to use	57,958	55,839	69,361
Bond project fund	-	4,730	13,685
Trustee bond funds for current liabilities	1,029	682	785
Total cash and investments	<u>\$ 66,656</u>	<u>\$ 70,147</u>	<u>\$ 91,971</u>

The Hospital maintains sufficient cash balances in operating cash (current assets) to cover approximately 20 days of expenses. All excess cash is transferred to noncurrent assets limited as to use or restricted. The decrease in bond project funds from 2011 to 2012 is due to funding fixed asset additions of \$9.5 million from the remaining proceeds of the 2008 revenue bonds, approximately \$4.7 million, with the remainder, approximately \$4.8 million, funded from excess operating funds. The decrease in bond project funds from 2010 to 2011 is due to funding fixed asset additions of \$17.9 million from proceeds of the 2008 revenue bonds, approximately \$9.0 million, with the remainder, approximately \$8.9 million, funded from excess operating funds.

Net cash provided by operating activities was \$9.9 million in 2012 versus \$11.8 million in 2011 and \$12.6 million in 2010.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, decreased by \$3.3 million between December 31, 2011 and 2012 mainly due to a decrease in allowance for uncollectibles and several cash collection improvements in the billing department. Days in receivables decreased by 6.3 days. Patient accounts receivable, net of allowance for uncollectibles, decreased by \$3.8 million between December 2010 and 2011 mainly due to an increase in allowance for uncollectibles and improvements in the billing department. Days in receivables decreased by 8.4 days.

Capital Assets

Capital assets decreased from \$127 million in 2011 to \$123 million in 2012. The decrease relates to \$9.4 million in net capital additions, offset by \$13.3 million in depreciation expense. Capital assets increased from \$122 million in 2010 to \$127 million in 2011. The increase relates to \$17.9 million in net capital additions, offset by \$12.9 million in depreciation expense.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Capital Additions (amounts in thousands)

	2012	2011	2010
Operating room suites expansion/renovation	\$ -	\$ 3,100	\$ 6,600
New telephone system	-	-	700
Energy management project	-	5,900	5,800
Electronic medical record/CPOE	6,398	901	6,300
Routine replacement	3,081	13,499	11,200
Total	<u>\$ 9,479</u>	<u>\$ 23,400</u>	<u>\$ 30,600</u>

Debt Administration

The Hospital has agreed to maintain certain bond covenant ratios on a yearly basis. Covenant ratios include days cash on hand, supplemental rate (maximum debt service coverage), historical debt service coverage, and cushion ratios. Ratios are defined in the bond indenture agreements. Management believes that the Hospital is in compliance with all bond covenants as of December 31, 2012.

Ratios

	2012	2011	2010	Covenant
Days cash on hand	156.51	161.31	199.47	100.00
Maximum debt service coverage	1.59	2.29	2.63	1.20
Historical debt service coverage	1.69	2.14	3.90	1.35
Cushion ratio	9.44	9.49	9.02	1.50

The declines in days cash on hand, maximum debt service coverage, and historical debt service coverage are due to funding of capital asset additions from operations of \$4.8 million and the negative results incurred in 2012 and 2011.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2012 compared to 2011 and 2010.

Table 2
Revenue and Expenses (amounts in thousands)

	2012	2011	2010
Operating Revenue	\$ 143,279	\$ 148,435	\$ 151,126
Operating Expenses	<u>148,602</u>	<u>150,198</u>	<u>146,272</u>
Operating (Loss) Income	(5,323)	(1,763)	4,854
Nonoperating Expense	<u>(1,908)</u>	<u>(1,047)</u>	<u>(266)</u>
Excess of Revenue (Under) Over Expenses	(7,231)	(2,810)	4,588
Gifts, Grants, Bequests, and Other	<u>539</u>	<u>393</u>	<u>871</u>
(Decrease) Increase in Net Position	(6,692)	(2,417)	5,459
Net Position - Beginning of year	<u>140,218</u>	<u>142,635</u>	<u>137,176</u>
Net Position - End of year	<u>\$ 133,526</u>	<u>\$ 140,218</u>	<u>\$ 142,635</u>

Net Patient Service Revenue

Total operating revenue decreased \$5.2 million, or 3.5 percent, in 2012 as compared to 2011 and decreased \$2.7 million, or 1.8 percent, in 2011 as compared to 2010.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Inpatient Business Activity

Total discharges in 2012 decreased by 939 discharges, or 10.4 percent, compared to 2011. For 2011, total discharges decreased by 420 discharges, or 4.5 percent, compared to 2010. Length of stay (LOS) for Hospital inpatients, primarily step-down patients, has also increased slightly in 2012 as shown below:

		Discharges		
		2012	2011	2010
Medical/Surgical		4,493	4,431	5,169
Critical care		362	1,320	384
Step-down unit		1,769	1,722	2,283
Obstetrics		751	809	846
	Subtotal	7,375	8,282	8,682
Newborn		697	729	749
	Total	8,072	9,011	9,431

		Average Length of Stay (Days)		
		2012	2011	2010
Medical/Surgical		4.2	4.4	3.7
Critical care		2.8	2.8	2.5
Step-down unit		5.2	4.9	3.9
Obstetrics		2.3	2.2	2.2
Newborn		2.1	2.0	2.0

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 4.6 percent (includes 10.0 percent price increase) in 2012 after increasing 6.5 percent (includes 10.0 percent price increase) in 2011. Outpatient gross revenue accounts for 64.1 percent of patient revenue in 2012, 62.4 percent in 2011, and 61.4 percent in 2010.

Deductions from Revenue

Contractual service adjustments were 63.6 percent of gross revenue in 2012 versus 60.8 percent in 2011 and 58.1 percent in 2010. The increased percentages are due to the 10 percent price increases approved in 2012 and 2011 by the board of trustees which exceed increased reimbursements from Medicare, Medicaid, and other contracted payors.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Bad debt provision was \$12.2 million in 2012 versus \$12.5 million for 2011 and \$13.9 million for 2010.

Charity care for 2012 was \$20.9 million, a decrease of \$0.6 million, or 2.8 percent, over \$21.6 million in 2011. In 2010, charity care was \$16.0 million. The State of Ohio developed a program in the late 1980s designed to help hospitals address the increasing number of low-income, special-needs patients. The program, named the State of Ohio Care Assurance Program, is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of dollars is then redistributed to all Ohio hospitals, with no guarantee that each hospital will receive back its initial assessment. For 2012, the Hospital received \$1.3 million net from the Ohio Care Assurance Program compared to \$1.3 million in 2011 and \$1.4 million in 2010.

Operating Expenses

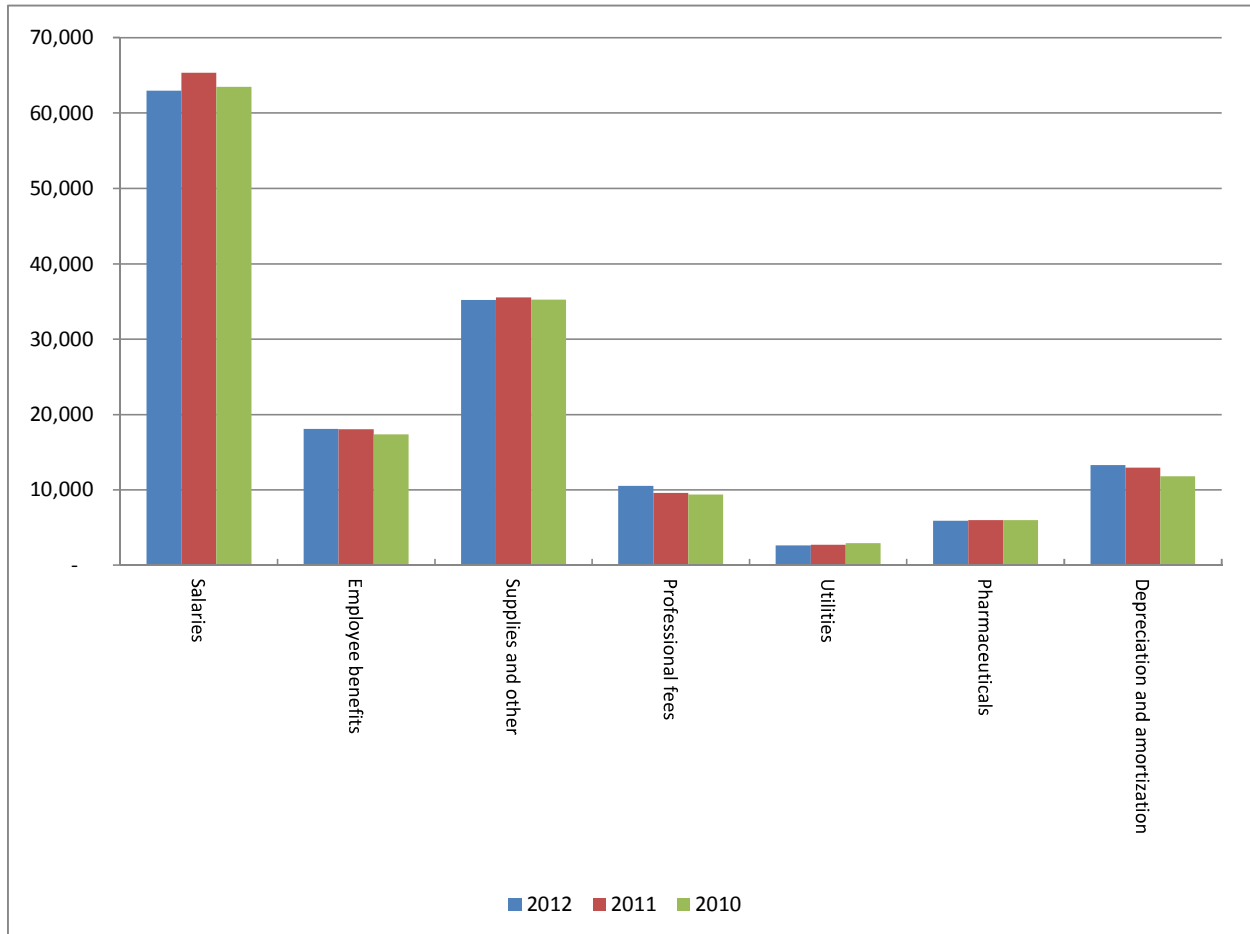
Total operating expenses in 2012 were \$148.6 million, or 1.1 percent lower than 2011 levels, mainly due to decreases in salaries and wages of \$2.4 million and supplies and other expense of \$0.4 million, offset by increases in professional fees of \$.9 million and depreciation of \$.3 million.

Total operating expenses in 2011 were \$150.2 million, or 2.7 percent higher than 2010 levels, mainly due to increases in salaries and wages of \$1.9 million and an increase in depreciation of \$1.1 million.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Operating Expense Comparison (amounts in thousands)



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

The largest percentage increases in operating expenses in 2011 over 2010 levels are reflected in salaries and wages (3.0 percent) and depreciation (9.3 percent).

Salaries

Salaries decreased \$2.4 million, or 3.7 percent, in 2012 from 2011 levels, due mainly to the lower inpatient and outpatient volumes experienced in 2012 and a decrease in FTEs of approximately 24, offset by wage increases of roughly 3.0 percent. The number of full-time equivalent positions in 2012 was 1,214.9 versus 1,239.2 in 2011 and 1,214.9 in 2010. The decrease in FTEs in 2012 was mainly due to attrition and the elimination of pediatric physician practices during 2012.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Supply and Other Expenses

Supply and other expenses remained flat in 2012 as compared to 2011 and include approximately \$2.1 million in State of Ohio Hospital Franchise Fees. Supply and other expenses remained flat in 2011 as compared to 2010 and include approximately \$1.6 million in State of Ohio Hospital Franchise Fees.

Pharmaceuticals

Pharmaceuticals remained flat in 2012 as compared to 2011 and also 2010.

Utilities and Other

Utilities remained flat in 2012 as compared to 2011. Utilities decreased 7.3 percent in 2011 from 2010 levels, primarily due to reductions in electrical and water/sewer costs.

Depreciation and Amortization

Depreciation and amortization increased 2.6 percent in 2012, as the Hospital made various acquisitions of clinical equipment and due to the full year impact of 2011 capital expenditures. In 2011, depreciation and amortization increased 9.3 percent, as the Hospital opened the remodeled operating room suites, upgraded energy management project, implemented electronic medical records software in the physician practices, and made various acquisitions of clinical equipment.

Nonoperating Revenue and Expenses (in thousands)

	2012	2011	2010
Investment and other income - Net	\$ 679	\$ 2,004	\$ 2,888
Interest expense	(2,465)	(2,950)	(3,012)
Change in net unrealized gains and losses	(122)	(101)	(142)
Total	<u>\$ (1,908)</u>	<u>\$ (1,047)</u>	<u>\$ (266)</u>

Investment and Other Income

Investment and other income decreased \$1.3 million in 2012 compared to 2011 due to lower interest rates. Investment and other income decreased \$0.8 million in 2011 compared to 2010 due to the use of investments to fund certain capital asset additions.

Interest expense decreased \$0.5 million in 2012 due primarily to decreased variable interest rates associated with the 2005, 2008, 2010, 2011, and 2012 bonds and the reduction in debt outstanding.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Unrealized losses on investments were flat in 2012 from 2011 and 2010 levels due primarily to sluggish fixed-income rates experienced in all three years.

Economic Factors and Next Year's Budget

The board of trustees approved the 2013 operating budget at its December 2012 meeting. This budget was developed after a review of key volume indicators and trends seen at the Hospital and at other hospitals in northeast Ohio. The budget incorporated the Hospital's current strategic business plan, 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 loss of \$2.8 million, and includes \$2.1 million in State of Ohio Hospital Franchise Fees. It also includes one-time costs and revenues associated with the implementation of an electronic medical record system in 2013.

Contacting the Hospital's Management

This financial report is intended to provide the users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, please feel free to contact me.

Carl Ebner

Vice President, Finance

Robinson Memorial Portage County Hospital and Affiliates

Statement of Financial Position (amounts in thousands)

	December 31	
	2012	2011
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 7,669	\$ 8,896
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	1,029	682
Patient accounts receivable - Less allowance for uncollectible accounts of approximately \$7,988,000 in 2012 and \$10,948,000 in 2011	15,018	18,300
Other current assets	6,711	16,873
Total current assets	30,427	44,751
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	57,958	60,569
Capital Assets - Net (Note 6)	123,137	126,985
Other Assets	4,787	3,508
Total assets	216,309	235,813
Deferred Outflows of Resources - Interest rate swap agreement (Note 8)	8,134	8,296
Total assets and deferred outflows of resources	<u>\$ 224,443</u>	<u>\$ 244,109</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 3,400	\$ 3,265
Accounts payable	7,413	6,500
Accrued employee compensation	2,183	1,915
Compensated absences (Note 11)	3,239	3,684
Accrued expenses	2,642	2,618
Estimated amount due to third-party payors	-	1,114
Other current liabilities	1,754	11,643
Total current liabilities	20,631	30,739
Long-term Debt - Net of current portion (Note 7)	59,915	62,715
Self-insurance Liabilities (Note 10)	1,771	2,141
Total liabilities	82,317	95,595
Deferred Inflows of Resources - Interest rate swap agreement (Note 8)	8,600	8,296
Total liabilities and deferred inflows of resources	90,917	103,891
Net Position		
Net investment in capital assets	59,908	66,417
Restricted by donor for specific uses	3,160	3,036
Unrestricted	70,458	70,765
Total net position	133,526	140,218
Total liabilities, deferred inflows of resources, and net position	<u>\$ 224,443</u>	<u>\$ 244,109</u>

Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2012	2011
Operating Revenue		
Net patient service revenue	\$ 137,534	\$ 143,122
Other	5,745	5,313
Total operating revenue	143,279	148,435
Operating Expenses		
Salaries and wages	62,968	65,380
Employee benefits	18,077	18,042
Supplies and other expenses	35,186	35,552
Professional services	10,541	9,584
Utilities	2,654	2,711
Pharmaceutical	5,903	5,995
Depreciation and amortization	13,273	12,934
Total operating expenses	148,602	150,198
Operating Loss	(5,323)	(1,763)
Nonoperating Revenue (Expenses)		
Investment and other income - Net	679	2,004
Interest expense	(2,465)	(2,950)
Changes in net unrealized gains and losses	(122)	(101)
Total nonoperating expenses	(1,908)	(1,047)
Excess of Revenue Under Expenses	(7,231)	(2,810)
Gifts, Grants, Bequests, and Other	539	393
Decrease in Net Position	(6,692)	(2,417)
Net Position - Beginning of year	140,218	142,635
Net Position - End of year	<u>\$ 133,526</u>	<u>\$ 140,218</u>

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (amounts in thousands)

	Year Ended December 31	
	2012	2011
Cash Flows from Operating Activities		
Cash received from patients	\$ 139,550	\$ 148,065
Other cash receipts	5,745	5,313
Cash payments to suppliers	(54,105)	(58,017)
Cash payments to employees	(81,222)	(83,561)
Net cash provided by operating activities	9,968	11,800
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	539	393
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	41,050	9,400
Purchase of property - Net	(9,425)	(17,886)
Principal paid on debt	(43,715)	(24,469)
Interest paid on debt	(2,465)	(2,950)
Net cash used in capital and related financing activities	(14,555)	(35,905)
Cash Flows from Investing Activities		
Purchases of investments	(97,319)	(146,323)
Sale of investments	90,341	158,315
Investment and other income	679	2,004
Changes in assets limited as to use	9,120	10,472
Net cash provided by investing activities	2,821	24,468
Net (Decrease) Increase in Cash and Cash Equivalents	(1,227)	756
Cash and Cash Equivalents - Beginning of year	8,896	8,140
Cash and Cash Equivalents - End of year	\$ 7,669	\$ 8,896
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (5,323)	\$ (1,763)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	13,273	12,934
Provision for bad debts and other charges	12,189	12,536
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Patient accounts receivable	(8,907)	(8,707)
Other current assets	10,162	22,645
Other assets	(1,279)	(1,049)
Deferred outflows of resources	162	(3,986)
Accounts payable	913	(2,455)
Other current liabilities and estimated amounts due to third-party payors	(11,003)	(21,457)
Compensated absences and accrued employee compensation	(177)	(139)
Other liabilities and accrued expenses	(346)	(745)
Deferred inflows of resources	304	3,986
Net cash provided by operating activities	\$ 9,968	\$ 11,800

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies

Reporting Entity - Robinson Memorial Portage County Hospital and Affiliates (the "Hospital"), a component unit of Portage County, is organized as a county hospital under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation. The Hospital is exempt from federal income taxes. A board of hospital trustees, appointed by the Board of County Commissioners and the senior probate and common pleas judges, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide healthcare services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

On November 13, 2012, the Board of County Commissioners approved the conversion of the Hospital from a county hospital to a private nonprofit corporation through a lease of existing hospital facilities known as Robinson Memorial Hospital to a newly created entity named Robinson Health System, Inc. (RHS). The lease commencement date is within 90 days after RHS is granted exemption from taxation as a nonprofit Section 501(c)(3) organization.

The accompanying financial statements include the accounts and transactions of the Hospital, Robinson Memorial Hospital Foundation (the "Foundation"), Robinson Health Affiliates, Inc., and the preferred provider organization. The Hospital is the sole member of these entities. The Hospital exercises significant influence over these entities, considering them to be component units of the Hospital. These entities are presented in the Hospital's financial statements as blended components units. Investments in affiliates which are not majority-owned or controlled by the Hospital (Portage Physician Hospital Organization) are recorded on the equity method and are included in the statement of financial position in other assets, which amounted to \$132 at December 31, 2012 and 2011.

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007, which was renewed in 2010 and expires December 31, 2013, to provide improved quality of, and access to, health care in the communities served by the Hospital and Summa, expand healthcare services offered in Portage County and surrounding communities, and deliver healthcare services more efficiently and cost effectively. The affiliation agreement includes an affiliation fee, calculated as 50 percent of the amount over a 2 percent operating margin, with a minimum of \$50,000 effective in 2010, to be paid by the Hospital to Summa. For the years ended December 31, 2012 and 2011, the Hospital incurred costs related to the affiliation fee of \$50,000.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

The affiliation agreement also provides for a nonprofit joint operating company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital's facilities and develop and manage joint ventures between the two organizations. Each party has a 50 percent ownership in Summa Robinson Health Ventures, which will be recorded under the equity method. As of December 31, 2012 and 2011, Summa Robinson Health Ventures had no assets or activity. The Hospital will maintain its status as a county-owned hospital pursuant to the provisions of the Ohio Revised Code Chapter 339 and will continue to be governed by a board of trustees appointed pursuant to Chapter 339.02 of the Ohio Revised Code.

The Hospital entered into a 10-year affiliation agreement with Akron General Medical Center (AGMC) which expires June 30, 2014, the purpose of which is to jointly construct, equip, and operate a radiation therapy center at the Hospital which does business under the name of Robinson Radiation Oncology Center (RROC). Under this affiliation agreement, both parties agree to equally share the cost of leasehold improvements, leasing of equipment, and contribution of working capital. In addition, each party has a 50 percent representation in a management committee, which will oversee operations of RROC, and have agreed to distribute equally the excess revenue over expenses derived from RROC. RROC became operational January 1, 2005 and is accounted for on the equity method. At December 31, 2012 and 2011, the Hospital has recorded an asset of \$2,214 and \$1,283, respectively, equal to the investment in RROC.

All significant intercompany accounts and transactions have been eliminated in the financial statements.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

Enterprise Fund Accounting - The operations of the Hospital are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenue is recognized in the period in which it is earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Hospital are included in the balance sheet. The principal revenue of the Hospital is revenue received from insurers and/or patients for direct patient care. Operating expenses for the Hospital include cost of direct patient care, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Costs of Borrowing - Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, with the exception of those cash equivalents whose use is limited.

Risk Management - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage and excess (stop-loss) coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for medical malpractice claims.

Derivative Financial Instruments - The Governmental Accounting Standards Board (GASB) requires that all derivatives be recorded on the balance sheet at their respective fair value. Changes in fair value are recognized either in net position or deferred outflows and deferred inflows of resources, depending on the nature of the underlying exposure being hedged and whether the derivatives are effective or ineffective. The Hospital has derivative instruments that are deemed effective and ineffective.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

Classification of Net Position - Net position of the Hospital is classified in three components (1) net investment in capital assets, which consists of capital assets net of accumulated depreciation and reduced by any outstanding borrowing used to finance the purchase or construction of those assets; (2) restricted expendable assets, which represent noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures; and (3) unrestricted net position, which is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

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 \$115 and \$157 for the years ended December 31, 2012 and 2011, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments, which are restricted by the donor, are added to (deducted from) restricted amounts.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

The Hospital's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the Hospital's patients and payors. Patient accounts receivable consist of amounts due from governmental programs, commercial insurance companies, private-pay patients, and other group insurance programs. Net patient service revenue from the Medicare program, including Medicare HMOs, accounted for approximately 33 and 31 percent of the Hospital's net patient service revenue for the years ended December 31, 2012 and 2011, respectively. Medicaid net patient service revenue, including Medicaid HMOs, accounted for approximately 6 and 7 percent for the years ended December 31, 2012 and 2011, respectively, and Medical Mutual of Ohio net patient service revenue accounted for approximately 14 and 15 percent for the years ended December 31, 2012 and 2011, respectively. Excluding Medicare and Medical Mutual of Ohio, no other payor source represents more than 10 percent of the Hospital's net patient revenue. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note I - Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. GASB No. 63 is effective for the Hospital for the year ended December 31, 2012 and as such the Hospital's derivatives have been reflected as deferred outflows or inflows of resources and the Hospital has reflected a change in terminology from "net assets" to "net position." GASB No. 63 has been applied retrospectively for the year ended December 31, 2011. As a result of the retrospective application, other assets and liabilities decreased by \$8,296, as this represents the deferred outflow and inflow of resources for the derivative.

Upcoming Accounting Change - In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The Hospital is evaluating the impact this standard may have on its financial statements when adopted as required for December 31, 2013.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Hospital is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2013.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 1 - Summary of Significant Accounting Policies (Continued)

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 24, 2013, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits

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

Custodial risk is the risk that, in the event of bank failure, the Hospital's deposits might not be recovered. The Hospital's bank deposits at December 31, 2012 and 2011 are subject to the following categories of custodial risk (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Collateralized with securities held by the pledging institution's trust department	\$ 6,161	\$ 7,311
Amount insured	<u>770</u>	<u>770</u>
Total bank balances	<u>\$ 6,931</u>	<u>\$ 8,081</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

Investments

As of December 31, 2012 and 2011, the fair value of the Hospital's investments was as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 683	\$ 660
Equities	2,197	2,003
U.S. government obligations	46,187	46,163
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	<u>9,067</u>	<u>11,598</u>
Total investments	<u>\$ 58,134</u>	<u>\$ 60,424</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Deposits	\$ 8,522	\$ 9,723
Investments	<u>58,134</u>	<u>60,424</u>
Total deposits and investments	<u>\$ 66,656</u>	<u>\$ 70,147</u>

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

Interest Rate Risk - The Hospital's investment policies limit the investment portfolio to a weighted average life of seven years or less. All of the Hospital's investments at December 31, 2012 have a weighted average life of less than seven years.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 2 - Deposits and Investments (Continued)

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

Securities Lending Transactions - The Hospital engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Hospital received as collateral the market value of securities borrowed plus a premium of 2.0 percent of the market value of those securities. The Hospital records the fair value of the collateral received as both an other current asset and other current liability since the Hospital is obligated to return the collateral upon the return of the borrowed securities. Other current assets (and liabilities) included \$1,754 and \$11,643 of collateral investments at December 31, 2012 and 2011, respectively.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2012 and 2011, the estimated charges forgone for providing charity care services and supplies were approximately \$20,943 and \$21,568, respectively.

Note 4 - Net Patient Service Revenue

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

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 4 - Net Patient Service Revenue (Continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The U.S. Department of Justice and other federal agencies have also increased resources dedicated to regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory or other legal matters which may have a material adverse effect on the Hospital's financial position or results of operations.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 5 - Noncurrent Assets Limited as to Use or Restricted

Assets limited as to use or restricted have been set aside at fair value as follows:

	<u>2012</u>	<u>2011</u>
Board of trustees:		
Excess and funded depreciation	\$ 47,790	\$ 46,210
Self-insurance trust	4,605	4,639
Funds held by trustee under bond indenture	<u>1,029</u>	<u>5,412</u>
Total assets limited to use by board designation	53,424	56,261
By donor:		
Unrestricted	2,187	1,978
Restricted	<u>3,376</u>	<u>3,012</u>
Total by donor	<u>5,563</u>	<u>4,990</u>
Total assets limited as to use or restricted	58,987	61,251
Less assets limited as to use or restricted -		
Required for current liabilities	<u>1,029</u>	<u>682</u>
Total	<u>\$ 57,958</u>	<u>\$ 60,569</u>

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2012 and 2011:

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 6 - Capital Assets (Continued)

	2011			
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	\$ 10,588	\$ 81	\$ -	\$ 10,669
Construction in progress	13,901	8,010	(18,388)	3,523
Total capital assets not being depreciated	24,489	8,091	(18,388)	14,192
Capital assets being depreciated:				
Buildings	107,689	3,896	-	111,585
Fixed and moveable equipment	121,881	24,302	(15)	146,168
Total capital assets being depreciated	229,570	28,198	(15)	257,753
Less accumulated depreciation	132,041	12,934	(15)	144,960
Total capital assets being depreciated - Net	97,529	15,264	-	112,793
Total capital assets - Net	\$ 122,018	\$ 23,355	\$ (18,388)	\$ 126,985

During 2011, the Hospital completed the renovation of the existing operating rooms at the main campus for a total of \$3.1 million. The Hospital completed its energy management program, replacing windows, air handlers, chillers, and roof repairs for a total of \$5.9 million and the Hospital completed the electronic medical record system for its physician practices at a cost of \$3.7 million.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 7 - Long-term Debt

A summary of long-term debt at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Hospital Revenue Bonds Series 2012, bearing interest at variable rates (1.42 percent at December 31, 2012), and maturing in varying amounts from	\$ 41,050	\$ -
Hospital Revenue Bonds Series 2011, bearing interest at variable rates (1.79 percent at December 31, 2012), and maturing in varying amounts from	9,400	9,400
Hospital Revenue Bonds Series 2010, bearing interest at variable rates (1.79 percent at December 31, 2012), and maturing in varying amounts from	7,710	7,710
Hospital Revenue Bonds Series 2008, bearing interest at variable rates which were refunded during	-	41,605
Hospital Revenue Bond, Series 2005, bearing interest at variable rates (0.28 percent at December 31, 2012), and maturing in varying amounts through 2015	<u>5,155</u>	<u>7,265</u>
Total	63,315	65,980
Less current portion	<u>3,400</u>	<u>3,265</u>
Long-term portion	<u>\$ 59,915</u>	<u>\$ 62,715</u>

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

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

The Hospital Revenue Bonds, Series 2008 (Series 2008 Bonds) were issued by the County of Portage, Ohio in 2008 for the purpose of providing funds to pay for costs in renovating, constructing, and equipping various parts of the Hospital. The variable rate Series 2008 Bonds are remarketed on a weekly basis. The Series 2008 Bonds are backed by an irrevocable direct-pay letter of credit.

The Series 2008 Bonds bear interest at a variable rate. During 2012, the rates for the variable rate bonds ranged from .07 to .27 percent (average rate .18 percent).

On September 17, 2012 (the "Redemption Date"), the Hospital exercised its option to call for redemption all of the outstanding Series 2008 Bonds that are not otherwise to be redeemed on the Redemption Date by mandatory sinking fund redemption. The redemption price is 100 percent of the principal amount redeemed, plus interest to the Redemption Date.

The Hospital Revenue Bonds Series 2005 (Series 2005 Bonds) were issued by the County of Portage, Ohio in 2005 for the purpose of providing funds to pay for costs in renovating, constructing, and equipping various parts of the Hospital and refunding the Series 1995 and 2002 Bonds. The variable rate Series 2005 Bonds are remarketed on a weekly basis. The Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be put back to the bond trustee, who would draw down on the letter of credit to pay down the Series 2005 Bonds. With the exception of a four-day period in 2008, the Series 2005 Bonds have been successfully remarketed; however, due to the state of the current market conditions, management is unable to assess whether the bonds will continue to be successfully remarketed in the future. The Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit with an initial term of seven years ending August 15, 2012. In 2007, the Hospital was given an extension to August 15, 2014. The debt obligation supported by the letter of credit is subject to mandatory redemption upon the expiration of the letter of credit or any alternate letter of credit. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

The Series 2005 Bonds bear interest at a variable rate. During 2012, the rates for the variable rate bonds ranged from .24 to .42 percent (average rate .32 percent). The bonds are secured by the gross revenue of the Hospital.

At December 31, 2012, the fair value and carrying value of the bonds was approximately \$63,315.

The Hospital is also required to meet certain covenants relating to the above bonds including debt service coverage, days cash on hand, and capitalization ratios. Management believes they are in compliance with all covenants for the year ended December 31, 2012. Subsequent to year end, the Hospital was not in compliance with the debt service coverage ratio as of March 31, 2013. The Hospital has obtained bank waivers for the first quarter debt service coverage ratio. Based on the current performance and the inability to recognize the meaningful use monies, it is probable that the Hospital will be in violation of the debt service coverage ratio covenant at June 30, 2013. The bank would have the option to provide the Hospital with a waiver or the option to call the bonds.

The following tables summarize the outstanding long-term debt as of December 31, 2012 and 2011:

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 7 - Long-term Debt (Continued)

	Date of Issuance	2011				
		Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2011	2/1/2011	\$ -	\$ 9,400	\$ -	\$ 9,400	\$ -
Series 2010	12/30/2010	7,710	-	-	7,710	-
Series 2008	10/1/2008	42,710	-	(1,105)	41,605	2,110
Series 2005	8/18/2005	18,675	-	(11,410)	7,265	1,155
Series 1999	10/1/1999	11,954	-	(11,954)	-	-
Total		<u>\$ 81,049</u>	<u>\$ 9,400</u>	<u>\$ (24,469)</u>	<u>\$ 65,980</u>	<u>\$ 3,265</u>

The revenue bond payment requirements as of December 31, 2012 are as follows:

January 1	Principal	Interest	Total
2013	\$ 3,400	\$ 2,451	\$ 5,851
2014	3,640	2,345	5,985
2015	3,785	2,232	6,017
2016	3,940	2,095	6,035
2017	4,095	1,944	6,039
2018-2022	18,780	7,412	26,192
2023-2027	10,180	4,963	15,143
2028-2032	12,630	2,407	15,037
2033-2037	<u>2,865</u>	<u>94</u>	<u>2,959</u>
Total	<u>\$ 63,315</u>	<u>\$ 25,943</u>	<u>\$ 89,258</u>

Note 8 - Interest Rate Swap Agreements

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 8 - Interest Rate Swap Agreements (Continued)

On August 11, 2008, the Hospital entered into a fixed rate swap agreement on \$20,000 of the Series 2008 bonds for a period of 25 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.47 percent and receives a floating rate equal to 68 percent of the USD one-month London Interbank Offered Rate (LIBOR). Effective November 1, 2012, certain terms of the original swap were amended, including but not limited to amending the floating rate to 74 percent of LIBOR, plus 1.147 percent floating rate and an increase of the fixed rate payable by Hospital from 3.47 to 4.792 percent. The net amount paid or received under the swap agreement is included in interest expense. The swap rate received in December 2012 was 1.304 percent.

On July 22, 2005, the Hospital entered into a fixed rate swap agreement on \$32,455 of the Series 2005 bonds for a period of 17 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.17 percent and receives a floating rate equal to 67 percent of the USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate received ranged from .14 to .20 percent (an average of .16 percent) in 2012.

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 8 - Interest Rate Swap Agreements (Continued)

Credit Risk - The Hospital is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Hospital's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Fitch Ratings and Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian.

Interest Rate Risk - The Hospital is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Securities Industry and Financial Markets Association (SIFMA) swap decreases, the Hospital's net payment on the swap increases.

Basis Risk - The Hospital is exposed to basis risk on its LIBOR-based interest rate swaps due to variable-rate payments received by the Hospital on these instruments based on a rate or index other than interest rates the Hospital pays on its variable-rate debt, which is remarketed weekly.

The fixed rate swaps have been designated as effective swaps. Accordingly, any change in the swaps' fair value is recorded as a change in deferred outflows and deferred inflows of resources.

Note 9 - Employee Benefit Plans

The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: the traditional pension plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) - a defined contribution plan; and the combined plan (CO) - a cost-sharing, multiple-employer, defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 9 - Employee Benefit Plans

Total required employer contributions made were \$7,855 in 2012, \$8,198 in 2011, and \$7,961 in 2010. Employer contributions represented 14.0 percent of covered payroll in 2012, 2011, and 2010. Employee contributions were \$5,611 in 2012, \$5,856 in 2011, and \$5,686 in 2010, representing 10.0 percent of covered payroll in 2012, 2011, and 2010, and were consistent across all three plans (TP, MD, and CO) and are actuarially determined.

Robinson Memorial Portage County Hospital's payroll for employees covered by OPERS for the years ended December 31, 2012 and 2011 was approximately \$56,109 and \$58,558, respectively. The Hospital's total payroll was approximately \$62,968 in 2012 and \$65,380 in 2011.

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

The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the combined plan was 4.0 percent for 2011. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS actuary.

Note 10 - Medical Malpractice Claims

The Hospital is self-insured for medical malpractice claims, subject to certain limitations. Accordingly, the provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Potential losses from asserted and unasserted claims are accrued based on actuarially determined estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of the claim or incident and relevant trend factors. These amounts are recorded at the estimated present value using a discount rate of 4.0 percent for 2012 and 2011. The change in the liability for self-insurance is as follows (amounts in thousands):

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2012 and 2011 (amounts in thousands)

Note 10 - Medical Malpractice Claims (Continued)

	2012	2011
Beginning balance	\$ 2,141	\$ 2,424
Provision for self-insurance	(370)	(148)
Claims paid and other	-	(135)
Ending balance	\$ 1,771	\$ 2,141

For the years ended December 31, 2012 and 2011, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate. The Hospital established a trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

Note 11 - Compensated Absences

Hospital employees earn vacation and sick leave at varying rates depending on length of service. Employees can accumulate up to three years of vacation leave. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service with the Hospital. Upon retirement or death, unused leave balances (up to a maximum of 240 hours) are paid at varying rates depending on length of service. As of December 31, 2012 and 2011, the liability for unpaid compensated absences was \$3,239 and \$3,684, respectively.

Note 12 - Care Assurance

The Hospital participates in the State of Ohio's Care Assurance Program, which was established in 1988 to assist hospitals that had a disproportionate amount of uncompensated care. Under the program, Ohio hospitals, including the Hospital, are assessed an amount which forms a pool of funds to be matched with federal Medicaid funds for payments to hospitals. Total net revenue to the Hospital under the Care Assurance Program aggregated approximately \$1,339 and \$1,326 in 2012 and 2011, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

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

Independent Auditor's Report

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

We have audited, 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, the financial statements of Robinson Memorial Portage County Hospital (the "Hospital"), which comprise the statement of financial position as of December 31, 2012 and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements and have issued our report thereon dated April 24, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

This report is intended solely for the information of the Auditor of the State of Ohio, the board of trustees of Robinson Memorial Portage County Hospital and Affiliates, management, and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 24, 2013



Dave Yost • Auditor of State

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL AND AFFILIATES

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 2, 2013**