

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Basic Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)



**Auditor of State
Betty Montgomery**

Board of Trustees
Robinson Memorial Portage County Hospital

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, 2002 through December 31, 2002. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 8, 2003

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital's financial performance provides an overall review of the Hospital's financial activities for the fiscal year ended December 31, 2002 and 2001. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Hospital's financial performance.

Financial Highlights

- In 2002, total assets increased \$6.5 million over 2001 levels. Total cash and investments on hand at December 31, 2002 increased \$9.1 million over December 31, 2001. Net accounts receivable increased \$487,000. Net days revenue in accounts receivable was 53.6 days at December 31, 2002, compared to 53 days at December 31, 2001, and 56.2 days in 2000.
- Total liabilities increased \$5.3 million; current liabilities increased \$2.3 million; other and long-term liabilities increased \$3.0 million from December 31, 2001 to December 31, 2002.
- Additional debt of \$6.6 million in 2002 was added for construction of 17,200 square feet of new Radiology area and the renovation of 15,700 square feet of existing Radiology area. The debt is for 15-years, backed by a letter of credit and carries a 7-day variable rate of interest. As of December 31, 2002, the variable interest rate averaged 1.511%.
- Net cash provided by operating activities was \$9.2 million in 2002 compared to \$7.8 million in 2001. This increase is due to the increase in income from operations of approximately \$1.6 million.

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

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

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

The Board of Hospital Trustees, appointed by the Board of County Commissioners and the Senior Probate and Common Pleas Judges, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide health care services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

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

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets, and of Cash Flows, provide an indication of the Hospital's financial health. The Balance Sheets include the Hospital's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted because of bond covenants or other purposes. The Statements of Revenues, Expenses, and Changes in Net Assets report the revenues and expenses 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 Net Assets changed from a year ago, *increasing* from \$99.4 million to \$106.0 million. Table 1 provides a summary of the Hospital's Net Assets for 2002 compared to 2001, and 2001 compared to 2000. Total net assets for 2001 increased \$4.5 million over 2000, a 4.7% increase.

Table 1
Robinson Memorial Portage County Hospital
Net Assets (In thousands)

	2002	2001	2000
Assets:			
Current Assets	\$26,270	\$25,053	\$26,035
Assets Whose Use is Limited	81,713	72,908	68,230
Other Assets	2,500	2,492	2,751
Capital Assets	54,357	52,547	53,360
Total Assets	\$164,840	\$153,000	\$150,376
Liabilities:			
Current Liabilities	15,012	12,729	13,395
Long-term Debt	41,663	37,929	39,091
Other long-term liabilities	2,206	2,902	2,996
Total Liabilities	\$58,881	\$53,560	\$55,482
Net Assets:			
Unrestricted	86,947	84,488	75,471
Invested in Capital Assets, Net of			
Related Debt	17,444	13,056	17,821
Restricted	1,568	1,896	1,603
Total Net Assets	\$105,959	\$99,440	\$94,895
Total Liabilities & Net Assets	\$164,840	\$153,000	\$150,376

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

In 2002, the Hospital's cash and investment position increased \$9.1 million over 2001. Part of the increase in cash is attributable to cash provided from operations, while \$6.6 million of additional cash was provided through outside financing activities, offset by capital expenditures.

Account	2002 (000's)	2001 (000's)	2000 (000's)
Operating Cash	\$6,382	\$6,110	\$5,684
Board Designated Funds	75,732	71,587	62,098
Trustee Bond Funds	6,373	1,720	6,676
Total Available Cash	\$88,487	\$79,417	\$74,458

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

Capital Assets

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

Debt Administration

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

Ratio	2002	2001	2000	Covenant
Days cash on hand	251.00	242.30	221.70	100.00
Supplemental rate	2.72	2.28	2.69	1.50
Historical coverage	2.77	2.40	3.01	1.00
Cushion	11.56	13.93	11.23	1.50

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Revenues and Expenses

Table 2 shows the changes in revenues and expenses for 2002 compared to 2001, and 2001 compared to 2000.

Table 2
Robinson Memorial Portage County Hospital
Revenue and Expenses (In thousands)

	2002	2001	2000	% Change 2002-2001
Net Patient Service Revenue	\$114,105	\$109,566	\$106,597	4.1%
Other	3,286	3,516	3,596	(6.5)%
Total Operating Revenue	117,391	113,082	110,193	3.8%
Operating Expenses:				
Salaries & Wages	49,684	47,632	45,082	4.3%
Employee Benefits	14,477	13,489	11,024	7.3%
Supplies and other expenses	23,361	23,315	22,859	0.2%
Professional Fees	7,086	7,725	7,360	(8.3)%
Utilities	1,916	2,053	1,773	(6.7)%
Pharmaceuticals	4,652	4,228	4,309	10.0%
Depreciation/Amortization	6,233	6,372	6,006	(2.2)%
Provision for bad debts	7,417	7,368	7,718	0.7%
Total Operating Expenses	114,826	112,182	106,131	2.4%
Operating Income	2,565	900	4,062	185.0%
Nonoperating revenues and expenses:				
Investment and other income, net	5,174	4,219	4,475	22.6%
Interest expense	(2,402)	(2,449)	(2,395)	(1.9)%
Change in net unrealized gains and losses	959	1,569	2,862	(38.9)%
Income before other revenue, expenses, gains and losses	6,296	4,239	9,004	48.5%
Gifts, grants, and bequests	222	307	304	(27.7)%
Increase in net assets	6,518	4,546	9,308	43.4%
Total net assets, beginning of year	99,441	94,895	85,586	4.8%
Total net assets, end of year	105,959	99,441	94,894	6.6%

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Net Patient Service Revenues

Compared to 2001, net patient service revenues increased \$4.5 million or 4.1%.

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

As in 2001, the Hospital faced several staffing shortages in areas that included Nursing (particularly Registered Nurses), Pharmacy, Diagnostic Radiology, Ultrasound, Invasive Lab, Transcription Services, and Nuclear Medicine. While these staffing shortages did not require us to eliminate or limit services to our patients, temporary staffing needs were expensive, costing \$346,000 in 2002 and \$367,000 in 2001. Some scheduling vacancies were filled with overtime of existing staff. In addition to the cost of temporary help and overtime usage, the Hospital established a program for its own employees during periods of high census (see salary and wage discussion for more information).

Inpatient Business Activity

Excluding Psychiatric business (unit was closed in 2001), total admissions in 2002 approximate 2001 levels, however, the mix of admissions has changed:

	2002	2001	2000	2002 to 2001 % Change
Internal medicine	2,676	2,483	2,139	7.8%
General surgery	884	721	705	22.6%
Pulmonary medicine	301	258	384	16.7%
Urology	53	41	63	29.3%
Oncology	163	156	211	4.5%
Other	35	28	44	25.0%
Gastroenterology	54	49	55	10.2%
Neurology	98	107	121	(8.4)%
Cardiovascular surgery	179	199	200	(10.1)%
Otolaryngology	32	54	33	(40.7)%
Cardiology	456	498	575	(8.4)%
Pediatrics	731	781	807	(6.4)%
Orthopedics	371	440	398	(15.7)%
OB/GYN	952	1,024	1,014	(7.0)%
Family practice	2,271	2,419	2,273	(6.1)%
Subtotal	9,256	9,258	9,022	
Psychiatry	—	217	394	0.0%
Total	9,256	9,475	9,416	(2.3)%

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Management's Discussion and Analysis

Total patient days for 2002 reflect a decline of 694 days and the length of stay (LOS) for Hospital inpatient equaled 2001 levels:

Specialty	2002 LOS	2001 LOS	2000 LOS	2002 to 2001 %Change
Medical/Surgical	27,980	27,306	26,874	2.5%
Critical Care	3,923	3,748	3,883	4.7%
Pediatrics	486	453	607	7.3%
Obstetrics	1,838	2,056	1,894	(10.6)%
Mental Health	—	1,263	2,430	(100.0)%
Subtotal	34,227	34,826	35,688	(1.7)%
Newborn	1,481	1,576	1,713	(6.0)%
Total	35,708	36,402	37,401	(1.9)%

Specialty	2002 LOS	2001 LOS	2000 LOS	2002 to 2001 %Change
Medical/Surgical	5.0	5.0	5.0	0.0%
Critical Care	2.1	2.0	2.2	5.0%
Pediatrics	1.8	1.8	2.0	0.0%
Obstetrics	2.3	2.4	2.3	(4.2)%
Mental Health	0.0	5.7	6.0	(100.0)%
Subtotal	4.0	4.0	4.1	0.0%
Newborn	2.1	2.2	2.2	(4.5)%
Total	3.9	3.9	4.0	0.0%

The overall case mix index, which is one measure of patient acuity, for the Hospital was 1.02387 in 2002 compared to 1.01537 in 2001 due to the severity of patient illness and changes in DRG weights.

Outpatient Business Activity

The Hospital's outpatient business recorded an 8.5% growth, net of the overall 5% price increase. The areas that recorded the largest increase in revenues were CT Scans, Laboratory, Emergency Department, MRI, Operating Room, and Cardiology. Several new physicians joined our practice with the addition of a rheumatologist and additional OB/GYN and internal medicine physicians resulting in additional referrals.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Deductions from Revenue

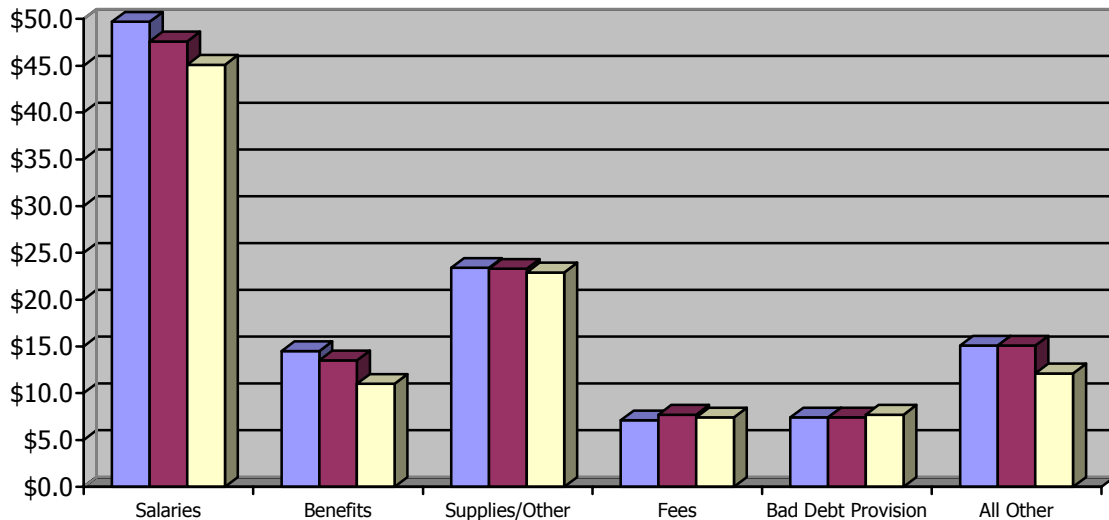
Contractual service adjustments, expressed as a percentage of gross revenues were recorded at 50.2% in 2002, compared to 47.1% in 2001, an increase of 3.1%. In 2000, deductions from revenue were recorded at 47.1%. This increase in contractual service adjustments is due to the price increase granted by the Board of Trustees, reduced reimbursement from Medicare and Medicaid and changes in negotiated third-party insurers.

Charity care for 2002 approximates the 2001 level at \$3.6 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 2002, the Hospital's Care Assurance distribution was \$1.2 million more than the assessment, compared to \$1.6 million in 2001. For 2002, the Hospital recorded \$1,565,000 from the Care Assurance Program and \$1,912,000 in 2001.

Operating Expenses

Total operating expenses in 2002 exceeded 2001 levels by \$2.6 million or 2.3%. In 2000, total operating expenses were \$6.0 million lower than 2001.

Operating Expense Comparison (In Millions)



ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

	2002	2001	2002 to 2001 % Change	2000
Salaries	49,684,157	47,632,366	4.3%	45,081,954
Benefits	14,477,018	13,488,639	7.3%	11,024,375
Supplies and other	23,361,757	23,315,095	0.2%	22,859,310
Fees	7,085,946	7,725,286	(8.3)%	7,359,731
Provision for bad debt	7,417,554	7,368,228	0.7%	7,718,056
All other expenses	12,800,232	12,652,567	1.2%	12,088,094

The largest increases in operating expenses in 2002 over 2001 levels are reflected in salaries and benefits.

Salaries & Wages

To remain competitive in the marketplace, the Board of Trustees granted a pay adjustment to all employees effective January 1, 2002. This pay adjustment accounts for approximately 3.5% of the increase in salaries and wages.

In the first quarter 2002, Hospital management re-instituted the special incentive pay program to entice patient caregivers to pick up additional hours over and above their normal schedule. The program was similar to what was in place for 2001, however, rates were raised and coverage was expanded.

During 2002, Hospital management continued to evaluate all employee job classifications and made special pay adjustments where appropriate. Special adjustments were required in a number of positions, to stay competitive with the market place. Adjustments were given to:

- Pharmacists
- Imaging Technologists
- MRI Technicians
- Nuclear Medicine Technologists
- Mammography Technicians
- Medical Technologists
- CT Scan Technicians
- Histotechnologists
- Ultrasonographers
- Phlebotomist
- Cardiovascular Intervention Technicians
- Cytotechnologists
- Surgical Technicians

These special salary adjustments cost the hospital approximately \$160,000 on an annual basis in 2002.

FTE's were comparable at approximately 1,070 throughout the Hospital (1,070 in 2002 and 1,071.5 in 2001).

Employee Benefits

Overall, Hospital benefit cost rose 7.2% in 2002 as compared to 2001.

Robinson Memorial Portage County Hospital is self-insured for health and dental benefits. While costs rose 8.8% in 2002, the rate of increase has declined from previous years.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Management's Discussion and Analysis

Professional Services

Professional services reflect a decline of approximately \$639,000 from the 2001 level. This reduction in expense is due primarily to:

- The closure of the Behavioral Health Unit and the Wellness Center in 2001 reduced management fee expenses in 2002 by \$350,000;
- Renegotiations with vendors on test interpretations saved \$60,000 in 2002;
- A prior-year vendor contract settlement reduced management fees by \$100,000.

Economic Factors and Next Year's Budget

The Board of Trustees approved the 2003-operating budget at their October 2002 meeting. This budget was developed after a review of key volume indicators and trends seen at other hospitals in Northeast Ohio as well as trends for the Hospital. The budget incorporated the Hospital's current strategic business plan, long-range information systems plan, as well as Portage County economic factors such as estimated population growth and unemployment rates.

The budget provides for an income from operations of \$2.3 million, a 2.1% operating margin. Cost containment measures and continued renegotiations of managed care contracts and other expense contract is expected to contribute to the positive operating results. The 2003-operating budget projects a \$6.1 million excess of revenue and gains over expenses.

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, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Robinson Memorial Portage County Hospital as of December 31, 2002 and 2001, and the changes in its financial positions, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, effective January 1, 2001, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34—*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 37—*Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*, and GASB Statement No. 38—*Certain Financial Statement Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 14, 2003 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

KPMG LLP

March 14, 2003

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Balance Sheets

December 31, 2002 and 2001

Assets	2002	2001
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 6,382,022	6,110,188
Assets limited as to use – required for current liabilities (notest 4 and 8)	392,589	400,163
Patient accounts receivable, less allowance for estimated uncollectibles of approximately \$2,551,000 in 2002 and \$2,299,000 in 2001	15,318,596	14,831,938
Estimated third-party payor settlements	100,810	479,557
Supplies and other current assets	<u>4,075,948</u>	<u>3,231,412</u>
Total current assets	26,269,965	25,053,258
Noncurrent assets limited as to use or restricted (notes 4 and 8)	81,713,046	72,907,850
Capital assets, net (note 5)	54,356,833	52,547,269
Other assets	<u>2,500,287</u>	<u>2,492,123</u>
Total assets	<u>\$ 164,840,131</u>	<u>153,000,500</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 2,882,035	2,769,281
Accounts payable	5,178,015	3,444,159
Accrued employee compensation	1,547,044	1,539,753
Accrued employee compensated absences	2,449,361	2,305,155
Accrued expenses	<u>2,956,182</u>	<u>2,670,977</u>
Total current liabilities	15,012,637	12,729,325
Long-term debt (note 6)	41,662,725	37,929,134
Self-insurance and other liabilities (note 8)	<u>2,205,728</u>	<u>2,901,344</u>
Total liabilities	58,881,090	53,559,803
Commitments and contingencies (notes 3, 7, and 8)		
Net assets:		
Invested in capital assets, net of related debt	17,444,240	13,055,762
Restricted – by donor for specific uses	1,568,387	1,896,644
Unrestricted	<u>86,946,414</u>	<u>84,488,291</u>
Total net assets	<u>105,959,041</u>	<u>99,440,697</u>
Total liabilities and net assets	<u>\$ 164,840,131</u>	<u>153,000,500</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Net patient service revenue	\$ 114,104,735	109,565,955
Other	3,286,866	3,515,848
Total operating revenues	<u>117,391,601</u>	<u>113,081,803</u>
Operating expenses:		
Salaries and wages	49,684,157	47,632,366
Employee benefits (note 7)	14,477,018	13,488,639
Supplies and other expenses	23,361,757	23,315,095
Professional services	7,085,946	7,725,286
Utilities	1,915,666	2,052,966
Pharmaceutical	4,651,703	4,227,416
Depreciation and amortization	6,232,863	6,372,185
Provision for bad debts	7,417,554	7,368,228
Total operating expenses	<u>114,826,664</u>	<u>112,182,181</u>
Operating income	2,564,937	899,622
Nonoperating revenues and expenses:		
Investment and other income, net	5,174,550	4,218,982
Interest expense	(2,401,942)	(2,448,397)
Change in net unrealized gains and losses	959,166	1,568,920
Income before other revenues, expenses, gains and losses	<u>6,296,711</u>	<u>4,239,127</u>
Gifts, grants and bequests	221,633	307,009
Increase in net assets	<u>6,518,344</u>	<u>4,546,136</u>
Total net assets, beginning of year	<u>99,440,697</u>	<u>94,894,561</u>
Total net assets, end of year	<u>\$ 105,959,041</u>	<u>99,440,697</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Statements of Cash Flows

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from patients	\$ 106,511,892	102,928,176
Other cash receipts	3,286,866	3,630,880
Cash payments to suppliers	(36,641,891)	(38,259,978)
Cash payments to employees	(64,009,678)	(60,767,457)
Net cash provided by operating activities	<u>9,147,189</u>	<u>7,531,621</u>
Cash flows from noncapital financing activities:		
Gifts, grants and bequests received	<u>221,633</u>	<u>307,009</u>
Net cash provided by noncapital financing activities	<u>221,633</u>	<u>307,009</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	6,635,000	1,630,085
Purchase of property	(7,935,795)	(5,396,444)
Principal paid on debt	(2,645,772)	(2,438,138)
Interest paid on debt	(2,409,083)	(2,461,631)
Net cash used in capital and related financing activities	<u>(6,355,650)</u>	<u>(8,666,128)</u>
Cash flows from investing activities:		
Investment and other income	5,174,550	4,218,982
Change in assets limited as to use	(7,915,888)	(2,965,572)
Net cash provided by (used in) investing activities	<u>(2,741,338)</u>	<u>1,253,410</u>
Net increase in cash and cash equivalents	271,834	425,912
Cash and cash equivalents at beginning of year	<u>6,110,188</u>	<u>5,684,276</u>
Cash and cash equivalents at end of year	<u>\$ 6,382,022</u>	<u>6,110,188</u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,564,937	899,622
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,232,863	6,372,185
Provision for bad debts	7,417,554	7,368,228
Changes in assets and liabilities:		
Accounts receivable	(7,904,212)	(5,539,976)
Supplies and other current assets	(844,536)	(84,245)
Other assets	(67,378)	95,956
Accounts payable	1,733,856	(874,085)
Compensated absences	144,206	127,607
Accrued expenses	285,205	228,509
Estimated third party payor settlements	378,747	(1,193,759)
Accrued employee compensation	7,291	212,707
Other liabilities	(801,344)	(81,128)
Net cash provided by operating activities	<u>\$ 9,147,189</u>	<u>7,531,621</u>

See accompanying notes to financial statements.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Robinson Memorial Portage County Hospital (Hospital), a component unit of Portage County, is organized as a county hospital under provisions of the general statutes of the State of Ohio, requiring no specific articles of incorporation. The Hospital is exempt from federal income taxes. A board of hospital trustees, appointed by the Board of County Commissioners and the Senior Probate and Common Pleas Judges, is charged with the maintenance, operation, and management of the Hospital, its finances, and staff. The Hospital's primary mission is to provide health care services to the citizens of Portage County and the surrounding area through its acute and urgent care facilities.

The accompanying financial statements include the accounts and transactions of the Hospital, Robinson Memorial Hospital Foundation (Foundation), Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. These entities were evaluated in accordance with Governmental Accounting Standards Board Statement No. 14. 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 \$229,716 and \$108,669, at December 31, 2002 and 2001, respectively. All significant intercompany accounts and transactions have been eliminated in the financial statements.

(b) Changes in Accounting Principles

Effective January 1, 2001, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34) as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statements Disclosures*. Statement 34 establishes financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this accounting change related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the Statements of Cash Flows on the direct method. Management's decision to adopt Statement 34 was based on Portage County's planned adoption for fiscal year 2001.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the Hospital, certain note disclosures have been added or amended in 2001 including future debt service and lease obligations, short-term obligations, and interest rates.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(c) 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.

(d) 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.

(e) Basis of Accounting

The operations of the hospital are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized and all assets and liabilities associated with the operation of the hospital are included in the Statement of Net Assets. The principle revenues of the hospital are revenues received from insurers and/or patients for direct patient care. Operating expenses for the hospital include cost of direct patient care, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(f) 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.

(g) 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.

(h) 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 (see note 8).

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

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

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

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

(j) *Net Patient Service Revenue*

Net patient service revenue is reported at the 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.

(k) *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.

The Hospital's policy, when an expense is incurred for purposes for which both unrestricted and restricted net assets are available, is to first apply unrestricted net assets.

(l) *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 \$359,000 and \$541,000 for the years ended December 31, 2002 and 2001, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments which are part of restricted funds are added to (deducted from) restricted amounts.

(m) *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.

(n) *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.

(o) *Assets Limited as to Use or Restricted*

Investments set aside for Board-designated purposes for future capital improvements or limited by financing, insurance, or other similar arrangements are considered to be assets limited as to use.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(p) 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 26% and 29% of the Hospital's net patient service revenue for the years ended December 31, 2002 and 2001, respectively. Medicaid revenue accounted for approximately 7% in both years ended December 31, 2002 and 2001, respectively, and Blue Cross revenue accounted for approximately 23% and 20% for the years ended December 31, 2002 and 2001, respectively. Excluding Medicare and Blue Cross, no other payor source represents more than 10% of the Hospital's patient accounts receivable. The Hospital maintains an allowance for doubtful accounts based on the expected collectibility of patient accounts receivable.

(q) Deposits/Investments

Deposits are collateralized by the depository bank with pledged securities. Including the deposit insurance provided by the Federal Deposit Insurance Corporation, this collateralizing process 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. Investments are categorized to give an indication of the level of risk assumed by the Hospital at year-end. The categorized investments include those, which are classified as cash and cash equivalents in accordance with the provisions of GASB Statement No. 9.

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

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

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

	<u>Category 1</u>	<u>Category 2</u>	<u>Fair value</u>
2001:			
Unrestricted:			
Insured deposits	\$ 120,490	—	120,490
Uninsured deposits	—	532,174	532,174
U.S. Treasury obligations	75,557,808	—	75,557,808
Equity securities	<u>959,384</u>	<u>—</u>	<u>959,384</u>
	76,637,682	532,174	77,169,856
STAR Ohio			550,634
Petty cash			<u>4,344</u>
			77,724,834
Restricted:			
Insured deposits	130,650	—	132,650
Uninsured deposits	—	29,791	29,791
Equity securities	<u>1,043,603</u>	<u>—</u>	<u>1,043,603</u>
Subtotal	1,174,253	29,791	1,206,044
STAR Ohio			<u>487,323</u>
Total cash and investments			\$ <u><u>79,418,201</u></u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(r) Supplies

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

(s) Capital Assets

Capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs greater than \$500. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives, using the straight-line method. Expenditures, which substantially increase the useful lives of existing assets, are capitalized. Routine maintenance and repairs are expensed as incurred. Useful lives are as follows:

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

(t) Goodwill

Goodwill amounting to \$1,090,000 and \$1,132,000 at December 31, 2002 and 2001, 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.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Hospital adopted SFAS No. 144 on January 1, 2002.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill and intangible assets are tested annually for impairment, and are 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.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

Prior to the adoption of SFAS No. 144, the Hospital accounted for long-lived assets in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

(u) Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

(2) Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2002 and 2001, the estimated charges forgone of providing charity care services and supplies were approximately \$3,582,000 and \$3,708,000, respectively.

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services, other than ambulatory surgery, laboratory, and radiology, were paid based upon a reimbursement methodology or a percentage of reasonable cost through July 31, 2000. As a result, final reimbursement for these services will be determined after submission of the Hospital's cost reports and audits by the third-party payors. Effective August 1, 2000, the Medicare program began paying hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the Hospital is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory, are paid based upon prospectively determined fee schedules.

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 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.

Program examinations of cost reports have been finalized for the Medicare program through 1998 and the Medicaid program through 1999. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

The U.S. Department of Justice and other federal agencies have 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.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(4) Assets Limited as to Use or Restricted

As of December 31, 2002 and 2001, assets limited as to use or restricted, at fair value, have been set aside as follows:

	<u>2002</u>	<u>2001</u>
Board of trustees:		
Funded depreciation and other	\$ 51,785,245	46,166,876
Self-insurance trust	5,918,083	5,611,058
Excess fund	16,521,252	17,961,162
Funds held by trustee under bond indenture	6,372,831	1,720,457
Restricted by donor	<u>1,508,224</u>	<u>1,848,460</u>
Total assets limited as to use or restricted	82,105,635	73,308,013
Less assets limited as to use or restricted – required for current liabilities	<u>392,589</u>	<u>400,163</u>
	<u>\$ 81,713,046</u>	<u>72,907,850</u>

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

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(5) Capital Assets

Capital assets consist of the following at December 31, 2002 and 2001:

<u>2002</u>	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 3,262,845	76,640	—	3,339,485
Construction in progress	<u>815,710</u>	<u>3,014,326</u>	<u>(413,738)</u>	<u>3,416,298</u>
Total capital assets, not being depreciated	4,078,555	3,090,966	(413,738)	6,755,783
Capital assets, being depreciated:				
Buildings	47,715,247	403,936	—	48,119,183
Fixed and movable equipment	<u>65,820,759</u>	<u>4,854,710</u>	<u>(511,084)</u>	<u>70,164,385</u>
Total capital assets, being depreciated	113,536,006	5,258,646	(511,084)	118,283,568
Less accumulated depreciation	<u>65,067,292</u>	<u>6,126,231</u>	<u>(511,005)</u>	<u>70,682,518</u>
Total capital assets, being depreciated, net	<u>48,468,714</u>	<u>(867,585)</u>	<u>(79)</u>	<u>47,601,050</u>
Total capital assets, net	\$ <u>52,547,269</u>	<u>2,223,381</u>	<u>(413,817)</u>	<u>54,356,833</u>
<u>2001</u>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 3,234,993	27,852	—	3,262,845
Construction in progress	<u>—</u>	<u>815,710</u>	<u>—</u>	<u>815,710</u>
Total capital assets, not being depreciated	3,234,993	843,562	—	4,078,555
Capital assets, being depreciated:				
Buildings	46,756,965	958,282	—	47,715,247
Fixed and movable equipment	<u>63,390,785</u>	<u>3,597,677</u>	<u>(1,167,703)</u>	<u>65,820,759</u>
Total capital assets, being depreciated	110,147,750	4,555,959	(1,167,703)	113,536,006
Less accumulated depreciation	<u>60,022,533</u>	<u>6,209,385</u>	<u>(1,164,626)</u>	<u>65,067,292</u>
Total capital assets, being depreciated, net	<u>50,125,217</u>	<u>(1,653,426)</u>	<u>(3,077)</u>	<u>48,468,714</u>
Total capital assets, net	\$ <u>53,360,210</u>	<u>(809,864)</u>	<u>(3,077)</u>	<u>52,547,269</u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(6) Long-term Debt

A summary of long-term debt at December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Hospital Revenue Bonds, Series 2002, net of unamortized bond discount of \$45,155 at December 31, 2002; bearing interest at variable rates (1.511% at December 31, 2002), unless converted to a fixed rate in the future, through 2017	\$ 6,589,845	—
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$213,362 and \$226,099 at December 31, 2002 and 2001, respectively; bearing interest at rates ranging from 4.00% to 5.25% and maturing in varying amounts through 2019	18,701,638	19,378,900
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of \$177,765 and \$191,799 at December 31, 2002 and 2001, respectively; bearing interest at rates ranging from 4.5% to 6.5% and maturing in varying amounts through 2015	11,727,235	12,318,201
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85% to 6.50% and maturing in varying amounts through 2007	6,115,000	7,140,000
Capital lease obligations and other long-term debt	<u>1,411,042</u>	<u>1,861,314</u>
	44,544,760	40,698,415
Less current portion	<u>2,882,035</u>	<u>2,769,281</u>
	<u>\$ 41,662,725</u>	<u>37,929,134</u>

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

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

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

The interest rate on the Series 2002 bonds is calculated using a weekly variable rate, which will be adjusted by the Remarketing Agent, initially, NatCity Investments, Inc. The average rate of the Series 2002 bonds at December 31, 2002 was 1.511%. 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 \$6,530,000 outstanding Serial bonds which mature in increasing amounts from \$720,000 on November 15, 2003 to \$715,000 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 of Portage, Ohio (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 \$2,630,000 outstanding serial bonds which mature in increasing amounts from \$635,000 on November 15, 2003 to \$715,000 on November 15, 2005; \$3,315,000 term bonds due November 15, 2009; and \$6,565,000 term bonds due November 15, 2015. Early redemption privileges are available.

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

The Series 1994 Bonds consist of \$3,255,000 outstanding serial bonds which mature in increasing amounts from \$1,080,000 on November 15, 2003 to \$1,150,000 on November 15, 2004; and \$3,885,000 term bonds due November 15, 2007. Early redemption privileges are available.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

At December 31, 2002, the fair value of the bonds of approximately \$46,706,000 exceeded the carrying value of approximately \$42,134,000.

The Hospital entered into a capital lease obligation for the purchase of a magnetic resonance imaging machine. The term of the lease is five years and the implicit rate is 3.95%.

The following summarizes the outstanding long-term debt as of December 31, 2002 and 2001:

<u>2002</u>	<u>Date of issuance</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending balance</u>	<u>Due within one year</u>
Series 2002	8/1/2003	\$ —	6,635,000	(45,155)	6,589,845	—
Series 1999	10/1/1999	19,378,900	—	(677,262)	18,701,638	720,000
Series 1995	9/1/1995	12,318,201	—	(590,966)	11,727,235	635,000
Series 1994	9/1/1994	7,140,000	—	(1,025,000)	6,115,000	1,080,000
Capital Lease	10/31/2001	1,580,768	—	(302,807)	1,277,961	313,954
Axis Nuclear System	12/11/1998	263,459	—	(130,378)	133,081	133,081
AS 400 Upgrade	3/1/1998	17,087	—	(17,087)	—	—
Total		\$ <u>40,698,415</u>	<u>6,635,000</u>	<u>(2,788,655)</u>	<u>44,544,760</u>	<u>2,882,035</u>

<u>2001</u>	<u>Date of issuance</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending balance</u>	<u>Due within one year</u>
Series 1999	10/1/1999	\$ 20,026,162	—	(647,262)	19,378,900	690,000
Series 1995	9/1/1995	12,879,167	—	(560,966)	12,318,201	605,000
Series 1994	9/1/1994	8,115,000	—	(975,000)	7,140,000	1,025,000
Capital Lease	10/31/2001	—	1,630,085	(49,317)	1,580,768	301,814
Axis Nuclear System	12/11/1998	384,692	—	(121,233)	263,459	130,380
AS 400 Upgrade	3/1/1998	101,447	—	(84,360)	17,087	17,087
Total		\$ <u>41,506,468</u>	<u>1,630,085</u>	<u>(2,438,138)</u>	<u>40,698,415</u>	<u>2,769,281</u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

The revenue bond amortization requirements as of December 31, 2002 are as follows:

<u>January 1</u>	<u>Total revenue bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,435,000	2,194,351
2004	2,960,000	2,044,419
2005	3,120,000	1,883,654
2006	3,295,000	1,723,457
2007	3,455,000	1,560,356
2008	2,195,000	1,388,460
2009	2,300,000	1,287,439
2010	2,415,000	1,180,423
2011	2,550,000	1,062,368
2012	2,680,000	937,559
2013	2,820,000	806,003
2014	2,970,000	667,088
2015	3,125,000	520,565
2016	1,965,000	362,515
2017	2,065,000	272,619
2018	1,565,000	185,150
2019	1,655,000	95,162
	<u>\$ 43,570,000</u>	<u>18,171,588</u>

The capital lease requirements as of December 31, 2002 are as follows:

<u>January 1</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 447,035	49,899
2004	327,657	32,148
2005	340,836	18,968
2006	295,514	5,358
	<u>\$ 1,411,042</u>	<u>106,373</u>

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2002 and 2001

(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 \$6,136,000 in 2002, \$6,013,000 in 2001 and \$4,376,000 in 2000. Employer contributions represented 13.55% of covered payroll in 2002 and 2001 and for the period January through June 2000, but were temporarily reduced to 8.13% from July through December of 2000. Employee contributions were \$3,907,000 in 2002, \$3,743,000 in 2001 and \$3,570,000 in 2000, or 8.50% of covered payroll. Approximately 95.4% of the contributions as a percentage of covered payroll were used to fund pension obligations; the remaining amounts were used to fund health care programs for retired members.

The Hospital's payroll for employees covered by PERS for the years ended December 31, 2002 and 2001, was approximately \$45,961,000 and \$44,035,000, respectively. The Hospital's total payroll was approximately \$49,684,000 in 2002 and \$47,632,000 in 2001.

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, 2001, 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	\$	16,400
Net assets available for benefits		<u>11,600</u>
Unfunded actuarial accrued liability	\$	<u><u>4,800</u></u>

The benefits are advance-financed on an actuarially determined basis. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities and normal cost. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. As of December 31, 2001, there are 402,041 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 5.00% and 4.30% for the years 2002 and 2001, respectively, were actually made to fund postretirement health care benefits.

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

Notes to Financial Statements

December 31, 2001 and 2000

(8) Medical Malpractice Claims

The Hospital is self-insured for medical malpractice claims subject to certain limitations. Accordingly, the provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Potential losses from asserted and unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of the claim or incident and relevant trend factors. The change in the liability for self-insurance is as follows:

	<u>2002</u>	<u>2001</u>
Beginning balance	\$ 2,786,000	2,799,000
Provision (benefit) for self-insurance	(247,000)	90,000
Claims paid and other	<u>(439,000)</u>	<u>(103,000)</u>
Ending balance	<u>\$ 2,100,000</u>	<u>2,786,000</u>

The Hospital established an irrevocable trust fund, which is included in assets limited as to use or restricted, for the payment of medical malpractice claims settlements. 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, 2002 and 2001, the liability for unpaid compensated absences was \$2,449,361 and \$2,305,155, 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 \$1.6 million in 2002 and 2001, respectively. The Hospital records the net proceeds in other revenue as funds are received.

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

The Board of Trustees
Robinson Memorial Portage County Hospital:

We have audited the financial statements of Robinson Memorial Portage County Hospital (Hospital) as of and for the year ended December 31, 2002, and have issued our report thereon dated March 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Hospital in a separate letter dated March 14, 2003.

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 14, 2003



**Auditor of State
Betty Montgomery**

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800-282-0370
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ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL

PROTAGE 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 31, 2003**