

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2005**



**Auditor of State
Betty Montgomery**

Board of Trustees
Robinson Memorial Portage County Hospital and Affiliates
6847 N. Chestnut Street
Ravenna, Ohio 44266-1204

We have reviewed the *Independent Auditor's Report* of the Robinson Memorial Portage County Hospital and Affiliates, prepared by Plante & Moran, PLLC, for the audit period January 1, 2005 through December 31, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 13, 2006

This Page is Intentionally Left Blank.

Robinson Memorial Portage County Hospital and Affiliates

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-14
Financial Statements	
Balance Sheet	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Notes to Financial Statements	18-37
Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements	38-39



Plante & Moran, PLLC
Suite 600
65 E. State St.
Columbus, OH 43215
Tel: 614.849.3000
Fax: 614.221.3535
plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying balance sheet of Robinson Memorial Portage County Hospital and Affiliates (a component unit of Portage County) (the "Hospital") as of December 31, 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the year 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 audit. The financial statements of Robinson Memorial Portage County Hospital and Affiliates for the year ended December 31, 2004 were audited by other auditors, whose report dated March 18, 2005 expressed an unqualified opinion on those financial statements.

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. 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 audit provides 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 and Affiliates at December 31, 2005 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



A worldwide association of independent accounting firms

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

The management's discussion and analysis on pages 3 through 14 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.

Plante & Moran, PLLC

March 31, 2006

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital's (the "Hospital") financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2005, 2004, and 2003. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also read the basic financial statements and the accompanying notes to enhance their understanding of the Hospital's financial performance. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the management's discussion and analysis.

Financial Highlights

- In 2005, total assets increased \$45.8 million over 2004 levels. Total cash and investments on hand at December 31, 2005 increased \$17.5 million over December 31, 2004. Net accounts receivable decreased \$3.8 million. Net days revenue in accounts receivable were 41.6 days at December 31, 2005, compared to 52.6 days at December 31, 2004, and 57.2 days in 2003.

The Hospital engaged in securities lending activities in 2005 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 increased both current assets and current liabilities at the fair value of the collateral of \$31.1 million.

- In 2004, total assets decreased \$2.5 million over 2003 levels. Total cash and investments on hand at December 31, 2004 decreased \$2.7 million over December 31, 2003. Net accounts receivable decreased \$0.7 million.
- In 2005, total liabilities increased \$43.2 million, current liabilities increased \$28.6 million, mainly due to securities lending programs, and long-term liabilities increased \$14.6 million due to issuance of new debt.
- In 2004, total liabilities decreased \$2.5 million, current liabilities increased \$0.4 million, and long-term liabilities decreased \$2.9 million.
- In 2005, additions to property, plant, and equipment were in excess of \$7.2 million compared to \$8.7 million in 2004 and \$14.4 million in 2003.
- New debt was issued in 2005 for the purpose of funding ongoing capital purchases and to refinance existing debt. This resulted in an increase in long-term debt of \$12.3 million over 2004. There was no new debt entered into during 2004. In 2003, \$0.6 million was added for management information systems file servers via a capital lease for 36 months with an implicit rate of 1.88 percent.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

- Net cash provided by operating activities was \$15.0 million in 2005 versus \$9.2 million in 2004 and \$7.3 million in 2003.
- Operating income was approximately \$3.2 million in 2005 compared to an operating loss of approximately \$0.3 million in 2004. In 2003, the Hospital had operating income of \$2.1 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 an entire operating entity.

Robinson Memorial Portage County 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 affiliates, which are not majority owned or controlled by the Hospital (Portage Physician Hospital Organization) are recorded on the equity method of accounting and are included in the balance sheet in other assets. All significant intercompany accounts and transactions have been eliminated in the financial statements.

The balance sheet, statement of revenue, expenses, and changes in net assets, and statement of cash flows provide an indication of the Hospital's results. The balance sheet includes the Hospital's assets and liabilities, using the accrual basis of accounting. The statement of revenue, expenses, and changes in net assets reports the revenue earned and expenses incurred during the time periods indicated. The statement of cash flows reports the cash provided 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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Financial Analysis of the Hospital

Robinson Memorial Portage County Hospital's total net assets increased by \$2.6 million to \$111.2 million at December 31, 2005 from \$108.6 million at December 31, 2004.

Table I provides a summary of the Hospital's total net assets at December 31, 2005 compared to December 31, 2004 and December 31, 2003.

Table I
Net Assets (in thousands)

	2005	2004	2003
Assets			
Current assets	\$ 59,261	\$ 30,392	\$ 29,991
Assets limited as to use	85,684	68,130	71,731
Other assets	2,345	2,183	2,308
Capital assets	<u>62,569</u>	<u>63,368</u>	<u>62,592</u>
Total assets	<u>\$ 209,859</u>	<u>\$ 164,073</u>	<u>\$ 166,622</u>
Liabilities			
Current liabilities	\$ 46,340	\$ 17,774	\$ 17,432
Long-term debt	47,463	35,080	38,642
Other long-term liabilities	<u>4,839</u>	<u>2,635</u>	<u>1,926</u>
Total liabilities	98,642	55,489	58,000
Net Assets			
Unrestricted	95,429	81,300	83,729
Invested in capital assets - Net of related debt	13,146	24,875	22,839
Restricted	<u>2,642</u>	<u>2,409</u>	<u>2,054</u>
Total net assets	<u>111,217</u>	<u>108,584</u>	<u>108,622</u>
Total liabilities and net assets	<u>\$ 209,859</u>	<u>\$ 164,073</u>	<u>\$ 166,622</u>

In 2005, the Hospital's cash and investment position increased \$17.6 million from 2004 and in 2004 decreased \$2.7 million from 2003.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Accounts (in thousands)

	2005	2004	2003
Operating cash	\$ 7,434	\$ 7,364	\$ 6,468
Assets limited as to use	75,580	66,733	68,064
Trustee bond funds for current liabilities	<u>10,103</u>	<u>1,397</u>	<u>3,667</u>
Total assets	<u>\$ 93,117</u>	<u>\$ 75,494</u>	<u>\$ 78,199</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 increase in noncurrent assets limited as to use or restricted and trustee bond funds is due to proceeds from debt financing and improved cash collections. The decrease in noncurrent assets limited as to use or restricted and trustee bond funds from 2003 to 2004 is due to capital expenditures which were not funded from operating cash flows.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, decreased by \$3.8 million between December 31, 2004 and December 31, 2005 due to improved cash collections and increases to the allowance for uncollectible accounts. Days in receivables decreased by 11.0 days. Patient accounts receivable, net of allowance for uncollectibles, decreased by \$0.7 million between December 31, 2003 and December 31, 2004.

Capital Assets

Capital assets decreased from \$63.4 million in 2004 to \$62.6 million in 2005. The decrease relates to \$7.2 million in net capital additions, offset by \$8.0 million in depreciation expense. Capital additions include primarily the Kent Imaging Center build-out, and related equipment for the imaging center, laboratory system upgrade, and various clinical equipment replacements and upgrades.

Capital assets increased from \$62.6 million in 2003 to \$63.4 million in 2004. The increase related to \$8.7 million in capital additions, offset by \$7.9 million in depreciation expense. The capital additions include radiology department construction and equipment, a cardiac catheterization laboratory, a new parking lot, renovation of the front lobby and gift shop, and several information systems additions and upgrades.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Debt Administration

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

Ratio

	2005	2004	2003	Covenant
Days cash on hand	212.90	198.10	212.60	100.00
Maximum debt service coverage	3.03	2.12	2.31	1.50
Historical debt service coverage	2.45	2.14	2.45	1.10
Cushion	15.81	11.75	11.03	1.50

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2005 compared to 2004 and 2003.

Table 2
Revenue and Expenses (in thousands)

	2005	2004	2003
Operating Revenue	\$ 130,238	\$ 119,631	\$ 113,983
Operating Expense	127,036	119,973	111,929
Operating Income (Loss)	3,202	(342)	2,054
Nonoperating Revenue and Expenses			
Investment and other income - Net	3,028	4,218	4,042
Interest expense	(2,318)	(2,236)	(2,363)
Change in net unrealized gains and losses	(1,451)	(1,952)	(1,518)
Total nonoperating revenue and expenses	(741)	30	161
Excess of Revenues Over (Under) Expenses	2,461	(312)	2,215

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Table 2 (Continued)
Revenue and Expenses (in thousands)

	2005	2004	2003
Gifts, Grants, and Bequests	\$ 401	\$ 274	\$ 448
Other	131	-	-
Loss on Refunding of Long-term Debt	(360)	-	-
Increase (Decrease) in Net Assets	2,633	(38)	2,663
Net Assets - Beginning of year	<u>108,584</u>	<u>108,622</u>	<u>105,959</u>
Net Assets - End of year	<u>\$ 111,217</u>	<u>\$ 108,584</u>	<u>\$ 108,622</u>

Net Patient Service Revenue

Total operating revenues increased \$10.6 million, or 8.9 percent, in 2005 as compared to 2004 and \$5.6 million, or 5.0 percent, in 2004 as compared to 2003.

In 2005, both inpatient days and discharges were significantly higher than 2004 levels, along with higher volumes in areas such as the inpatient operating room, laboratory, radiology areas, endoscopy, and visiting nurse and hospice.

In 2004, higher volumes in areas such as the laboratory, radiology areas, outpatient operating room, endoscopy, and visiting nurse and hospice generated the \$5.6 million in total operating revenue in 2004 as compared to 2003.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Inpatient Business Activity

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

	2005	2004	2003	2005 to 2004 Percent Change
Internal medicine	3,379	3,429	3,126	(1.5%)
General surgery	724	701	804	3.3%
Pulmonary medicine	248	242	275	2.5%
Urology	63	43	39	46.5%
Oncology	288	184	147	56.5%
Other	22	19	21	15.8%
Gastroenterology	39	46	35	(15.2%)
Neurology	20	55	82	(63.6%)
Cardiovascular surgery	150	144	166	4.2%
Otolaryngology	18	42	43	(57.1%)
Cardiology	368	351	329	4.8%
Pediatrics	748	635	664	17.8%
Orthopedics	280	287	321	(2.4%)
OB/GYN	957	883	915	18.4%
Family practice	2,222	1,941	2,039	14.5%
Total	<u>9,526</u>	<u>9,002</u>	<u>9,006</u>	<u>5.8%</u>

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Total patient days (excluding newborns) increased by 1,192 days in 2005 and declined 140 days in 2004. Length of stay (LOS) for Hospital inpatients has decreased from 2003 levels as shown below:

Specialty

	Patient Days		
	2005	2004	2003
Medical/Surgical	28,483	28,081	27,987
Critical care	3,955	3,421	3,572
Pediatrics	202	247	337
Obstetrics	2,188	1,887	1,880
Subtotal	34,828	33,636	33,776
Newborn	1,284	1,260	1,432
Total	36,112	34,896	35,208

	Average Length of Stay		
	2005	2004	2003
Medical/Surgical	4.7	4.9	5.0
Critical care	2.4	2.0	2.1
Pediatrics	1.7	1.8	1.8
Obstetrics	2.3	2.3	2.3
Newborn	2.1	2.2	2.1

The increase in inpatient admissions can be attributed mainly to family practice, oncology, and pediatrics. The increase in patient days is attributed to medical/surgical, critical care, and obstetrics. The decrease in inpatient discharges and days in 2004 can be attributed mainly to general surgery, newborns, and pediatrics.

The overall case mix index (a standard measurement of patient activity) based on the latest Medicare weights available for this calculation, reflects an increase of 3.5 percent from 2004 to 2005 and an increase of 3.3 percent from 2003 to 2004, indicating that the patients admitted to the Hospital were more acutely ill in each of the last two years. During February 2004, Robinson Memorial Hospital entered into a lease with Regency Hospital ("Regency") for a portion of the hospital facilities. Regency runs an 18-bed long-term acute-care hospital in that space and this has allowed the hospital to transfer patients who would have remained in the hospital to Regency. This accounts for the decreased length of stay even though case mix continues to increase.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 6.7 percent, net of the overall 5 percent price increase, in 2005 after increasing 5.0 percent in 2004. Areas that recorded the largest increase in revenue during 2005 were the physician practices, laboratory, operating room, radiology, including CT scans and MRI, endoscopy, and the cardiac cath lab. Several new physicians joined our practice locations in the past two years, including OB/GYNs, orthopedic surgeons, and internal medicine physicians.

Deductions from Revenue

The increase in contractual service adjustments is due to the price increases approved in 2005 and 2004 by the board of trustees which exceed increased reimbursements from Medicare and Medicaid and changes in negotiated third-party insurers.

Bad debt provision was \$7.7 million for both 2005 and 2004 and \$7.2 million in 2003.

Charity care for 2005 was \$9.4 million, an increase of \$2.7 million over \$6.7 million in 2004. In 2003, charity care was \$6.2 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 2005, the Hospital received \$1.4 million net, from the Ohio Care Assurance Program, compared to \$1.2 million in 2004, and \$1.3 million in 2003.

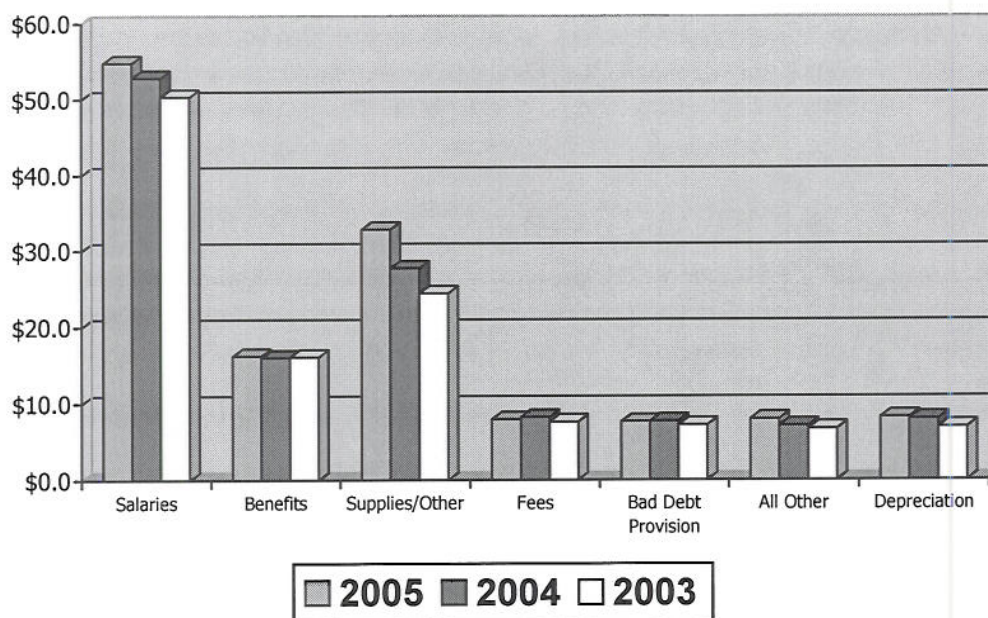
Operating Expenses

Total operating expenses in 2005 exceeded 2004 levels by \$7.1 million, or 5.9 percent, due to increased volumes. In 2004, total operating expenses were \$8.6 million, or 7.2 percent, higher than 2003.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Operating Expense Comparison (in millions)



The largest percentage increases in operating expenses in 2005 over 2004 levels are reflected in supplies and other expense 12.9 percent, pharmaceuticals 12.7 percent, utilities 13.1 percent, and salaries 3.8 percent.

The major increases in 2004 over 2003 are in supplies, salaries, and depreciation and amortization.

Salaries

Salaries increased \$2.0 million, or 3.8 percent, in 2005 from 2004 levels, due mainly to wage increases of roughly 2.5 percent and increased staffing due to increased volumes. The number of full-time equivalent positions in 2005 was 1,239.1 versus 1,223.43 in 2004 and 1,215.6 in 2003.

Supply and Other Expenses

Supply and other expense cost increased \$3.5 million, or 12.9 percent, in 2005 over the 2004 level. During 2005, there was growth in the number of operating room procedures, which accounts for roughly 6 percent of the increase in supply costs. Other increases included purchased services such as MRI, clinical lab fees, and contracted physician specialty services. Malpractice insurance increased due to a specific jury verdict rendered in December 2005.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Supply and other expenses increased 13.7 percent between 2003 and 2004 due mainly to growth in the number of procedures performed in the cardiac catheterization laboratory, which accounts for 30.0 percent of the increase in supply costs. Other increases included maintenance contracts on new equipment, clinical lab fees, and malpractice insurance.

Pharmaceuticals

Pharmaceuticals increased 12.7 percent in 2005 over 2004 levels due to increased volumes and the increases in cost per dosage. For 2004, pharmaceutical costs increased by 7.7 percent over 2003 levels due mainly to increases in cost per dosage.

Utilities

Utilities increased 13.1 percent over 2004 levels due to increased cost of natural gas and electricity. In 2004, the increase in utilities was 4.0 percent and is attributed to the enlarging of the radiology department.

Depreciation and Amortization

Depreciation and amortization increased slightly, 1.5 percent, as no major equipment additions or major building renovations occurred in 2005. The increase in 2004 from 2003 is due mainly to the renovation and equipping of the radiology department, which was completed in early 2004, and several other large projects (see capital assets above).

Nonoperating Revenues and Expenses

Investment and Other Income

Investment and other income decreased \$1.2 million due to the \$0.2 million reduction of a grant, \$0.6 million increase in realized losses on the sale of investments, and a \$0.4 million reduction in donated capital assets.

Investment and other income increased \$0.2 million from 2003 to 2004 due to leasehold improvement payments of \$0.3 million made by Regency Hospital for space it is leasing as a long-term acute-care hospital.

Economic Factors and Next Year's Budget

The board of trustees approved the 2006 operating budget at their October 2005 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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

The budget for the Hospital provides for operating income of \$2.7 million, a 2.0 percent, operating margin. New volumes are projected in the 2006 budget from the addition of various physicians to the community. In addition, cost containment measures and continued renegotiations of managed care contracts are expected to contribute to the positive operating results. The 2006 operating budget projects \$6.1 million in income before other revenue, expenses, gains, and losses.

Contacting the Hospital's Management

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

Carl Ebner

Vice President, Finance

Robinson Memorial Portage County Hospital and Affiliates

Balance Sheet

	December 31	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 7,434,139	\$ 7,364,471
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	841,996	641,051
Patient accounts receivable - Less allowance for estimated uncollectible accounts of approximately \$5,048,000 in 2005 and \$2,476,000 in 2004	13,978,759	17,751,841
Estimated third-party payor settlements	601,174	70,449
Other current assets	36,404,907	4,563,692
Total current assets	59,260,975	30,391,504
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	85,683,467	68,130,167
Capital Assets - Net (Note 6)	62,569,431	63,368,187
Other Assets	2,344,903	2,183,317
Total assets	<u>\$ 209,858,776</u>	<u>\$ 164,073,175</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	\$ 1,960,302	\$ 3,740,366
Accounts payable	4,546,022	5,550,607
Accrued employee compensation	1,667,053	1,939,556
Accrued employee compensated absences (Note 12)	3,457,876	3,097,087
Accrued expenses	3,572,426	3,446,736
Other current liabilities	31,136,361	-
Total current liabilities	46,340,040	17,774,352
Long-term Debt (Note 8)	47,463,020	35,080,012
Self-insurance and Other Liabilities (Note 11)	4,838,969	2,634,634
Total liabilities	98,642,029	55,488,998
Net Assets		
Invested capital assets - Net of related debt	13,146,109	24,875,364
Restricted by donor for specific uses	2,642,352	2,408,461
Unrestricted	95,428,286	81,300,352
Total net assets	111,216,747	108,584,177
Total liabilities and net assets	<u>\$ 209,858,776</u>	<u>\$ 164,073,175</u>

Robinson Memorial Portage County Hospital and Affiliates

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
Operating Revenue		
Net patient service revenue	\$ 125,449,825	\$ 115,787,118
Other	4,788,482	3,843,509
Total operating revenue	130,238,307	119,630,627
Operating Expenses		
Salaries and wages	54,782,901	52,777,270
Employee benefits	16,128,643	16,098,706
Supplies and other expenses	31,259,219	27,685,691
Professional services	7,907,583	8,238,396
Utilities	2,358,292	2,084,381
Pharmaceutical	5,686,407	5,046,523
Depreciation and amortization	8,162,876	8,041,920
Other charges (Note 14)	750,832	-
Total operating expenses	127,036,753	119,972,887
Operating Income (Loss)	3,201,554	(342,260)
Nonoperating Revenue and Expenses		
Investment and other income - Net	3,027,420	4,217,682
Interest expense	(2,317,916)	(2,235,654)
Changes in net unrealized gains and losses	(1,450,698)	(1,951,438)
Excess of Revenue Over (Under) Expenses	2,460,360	(311,670)
Gifts, Grants, and Bequests	401,472	273,356
Other	130,930	-
Loss on Refunding of Long-term Debt	(360,192)	-
Increase (Decrease) in Net Assets	2,632,570	(38,314)
Net Assets - Beginning of year	108,584,177	108,622,491
Net Assets - End of year	\$ 111,216,747	\$ 108,584,177

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows

	Year Ended December 31	
	2005	2004
Cash Flows from Operating Activities		
Cash received from patients	\$ 128,692,182	\$ 116,301,534
Other cash receipts	4,788,482	3,843,509
Cash payments to suppliers	(47,503,333)	(42,169,627)
Cash payments to employees	(70,823,258)	(68,778,850)
Net cash provided by operating activities	15,154,073	9,196,566
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	401,472	273,356
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	32,455,000	-
Purchase of property	(7,233,305)	(8,696,378)
Principal paid on debt	(22,013,712)	(3,596,818)
Interest paid on debt	(2,260,006)	(2,218,773)
Net cash provided by (used in) capital and related financing activities	947,977	(14,511,969)
Cash Flows from Investing Activities		
Purchases of investments	(30,404,564)	(8,319,477)
Sale of investments	25,949,967	7,717,305
Investment and other income	3,027,420	4,217,682
Changes in assets limited as to use	(15,006,677)	2,247,965
Net cash (used in) provided by investing activities	(16,433,854)	5,863,475
Net Increase in Cash and Cash Equivalents	69,668	821,428
Cash and Cash Equivalents - Beginning of year	7,364,471	6,543,043
Cash and Cash Equivalents - End of year	\$ 7,434,139	\$ 7,364,471
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 3,201,554	\$ (342,260)
Adjustment to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	8,162,876	8,041,920
Provision for bad debts and other charges	8,406,996	7,743,455
Changes in assets and liabilities:		
Accounts receivable	(3,883,082)	(7,064,081)
Other current assets	(31,841,215)	(184,075)
Other assets	(912,418)	167,622
Accounts receivable	(1,004,585)	(32,917)
Other current liabilities	31,136,361	-
Compensated absences and accrued employee compensation	88,286	97,126
Estimated third-party payor settlements	(530,725)	(164,958)
Other liabilities and accrued expenses	2,330,025	934,734
Net cash provided by operating activities	\$ 15,154,073	\$ 9,196,566

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

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 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 (the "Foundation"), and Robinson Health Affiliates, Inc. 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 and are included in the balance sheet in other assets, which amounted to \$20,804 and \$38,954 at December 31, 2005 and 2004, respectively.

On July 1, 2004, the Hospital entered into a 10-year affiliation agreement with Akron General Medical Center (AGMC), 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, 2005 and 2004, the Hospital has recorded an asset of \$501,149 and \$100,798, respectively, equal to the investment in RROC.

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

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note I - Summary of Significant Accounting Policies (Continued)

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting - The operations of the Hospital are accounted for as an Enterprise Fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenue is recognized in the period in which it is earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized and all assets and liabilities associated with the operation of the Hospital are included in the balance sheet. The principle 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 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Statement of Revenue, 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 revenue and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include investment income, and are reported as nonoperating. In addition, those items excluded from excess of revenue over (under) expenses include gifts, grants, and bequests.

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

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

Classification of Net Assets - Net assets of the Hospital are classified in four components: (1) Net assets invested in capital assets - net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets, (2) restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures, (3) restricted nonexpendable net assets equal the principal portion of the permanent endowments, and (4) unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Investment Income - Investment income of the self-insurance trust accounts and certain bond accounts, included in assets limited as to use, is recorded as other revenue and approximated \$214,000 and \$234,000 for the years ended December 31, 2005 and 2004, respectively. All other unrestricted investment income is recorded as nonoperating gains. Investment income and gains (losses) on investments, which are restricted by donor, are added to (deducted from) restricted amounts.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - 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 and equipment, and investments are recorded at fair market value at date of donation, which is then treated as cost.

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

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. Revenue from the Medicare program accounted for approximately 30 percent and 28 percent of the Hospital's net patient service revenue for the years ended December 31, 2005 and 2004, respectively. Medicaid revenue accounted for approximately 7 percent and 8 percent for the years ended December 31, 2005 and 2004, respectively, and Medical Mutual of Ohio revenue accounted for approximately 13 percent and 14 percent for the years ended December 31, 2005 and 2004, respectively. Excluding Medicare and Medical Mutual of Ohio, no other payor source represents more than 10 percent of the Hospital's patient accounts receivable. 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, 2005 and 2004

Note 1 - 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

Goodwill - Goodwill is included in other assets. Goodwill is being amortized on a straight-line method over a period of 5 to 25 years. In 2005, goodwill associated with Med-Center One, a wholly owned subsidiary of the Hospital, was written off (see Note 14).

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2005 and 2004 are as follows:

	2005	2004
Pledges due:		
In less than one year	\$ 96,713	\$ 88,381
In one to five years	<u>334,597</u>	<u>495,085</u>
Total	431,310	583,466
Allowance for doubtful pledges	<u>(8,626)</u>	<u>(11,669)</u>
Total	<u>\$ 422,684</u>	<u>\$ 571,797</u>

Reclassifications - Certain amounts in the 2004 financial statements have been reclassified to conform with the 2005 presentation.

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

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, 2005 and 2004 totaled \$4,659,340 and \$2,275,546, respectively, and were subject to the following categories of custodial risk:

	<u>2005</u>	<u>2004</u>
Collateralized with securities held by the pledging Institutions's trust department, but not in the Hospital's name	\$ 4,338,850	\$ 1,919,841
Amount insured	<u>320,490</u>	<u>355,705</u>
Total bank balances	<u>\$ 4,659,340</u>	<u>\$ 2,275,546</u>

Investments

As of December 31, 2005 and 2004, the fair value of the Hospital's investments was as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 8,455,435	\$ 2,856,235
Equities	1,198,225	1,205,614
U.S. government obligations	79,454,566	70,080,264
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (Federal Pools)	2,936,061	1,388,813
Corporate bonds	<u>114,420</u>	<u>144,551</u>
Total investments	<u>\$ 92,158,707</u>	<u>\$ 75,675,477</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Deposits	\$ 1,800,895	\$ 460,211
Investments	<u>92,158,707</u>	<u>75,675,477</u>
Total deposits and investments	<u>\$ 93,959,602</u>	<u>\$ 76,135,688</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

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, 2005 have a weighted average life of less than seven years.

Credit Risk - All of the Hospital's investments are rated AAA by Standard and Poor's. The Hospital's investment policies are governed by the State of Ohio statutes that authorize the Hospital to invest in U.S. government obligations. Federal mortgage pools are investments that are grandfathered from previous statutes that allow such investments.

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

Securities Lending Transactions - The Hospital engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Hospital received as collateral the market value of securities borrowed plus a premium of 2.0 percent of the market value of those securities. The Hospital records the fair value of the collateral received as both an other current asset and as an other current liability since the Hospital is obligated to return the collateral upon the return of the borrowed securities. Other current assets (and liabilities) at December 31, 2005 included \$31 million of collateral investments.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2005 and 2004, the estimated charges forgone of providing charity care services and supplies were approximately \$9,442,000 and \$5,542,000, respectively.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 4 - Net Patient Service Revenue

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

Program examinations of cost reports have been finalized for the Medicare program through 2004 and the Medicaid program through 2001. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

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

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Noncurrent Assets Limited as to Use or Restricted

As of December 31, 2005 and 2004, assets limited as to use or restricted have been set aside at fair value as follows:

	2005	2004
Board of trustees:		
Excess and funded depreciation	\$ 67,623,359	\$ 58,635,662
Self-insurance trust	5,654,602	5,809,024
Funds held by trustee under bond indenture	<u>9,260,682</u>	<u>754,692</u>
Total assets limited to use by board designation	82,538,643	65,199,378
By donor:		
Unrestricted	1,615,443	1,651,442
Restricted	<u>2,371,377</u>	<u>1,920,398</u>
Total by donor	<u>3,986,820</u>	<u>3,571,840</u>
Total assets limited as to use or restricted	86,525,463	68,771,218
Less assets limited as to use or restricted -		
Required for current liabilities	<u>841,996</u>	<u>641,051</u>
Total	<u>\$ 85,683,467</u>	<u>\$ 68,130,167</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, 2005 and 2004

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2005 and 2004:

	2005			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 4,280,553	\$ 25,338	\$ -	\$ 4,305,891
Construction in progress	-	1,258,378	-	1,258,378
Total capital assets not being depreciated	4,280,553	1,283,716	-	5,564,269
Capital assets being depreciated:				
Buildings	57,854,468	665,318	-	58,519,786
Fixed and movable equipment	85,576,382	5,284,271	(732,110)	90,128,543
Total capital assets being depreciated	143,430,850	5,949,589	(732,110)	148,648,329
Less accumulated depreciation	84,343,216	8,014,729	(714,778)	91,643,167
Total capital assets being depreciated - Net	59,087,634	(2,065,140)	(17,332)	57,005,162
Total capital assets - Net	\$ 63,368,187	\$ (781,424)	\$ (17,332)	\$ 62,569,431

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 6 - Capital Assets (Continued)

	2004			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 3,416,030	\$ 864,523	\$ -	\$ 4,280,553
Construction in progress	1,329,220	-	(1,329,220)	-
Total capital assets not being depreciated	4,745,250	864,523	(1,329,220)	4,280,553
Capital assets being depreciated:				
Buildings	54,815,851	3,038,617	-	57,854,468
Fixed and movable equipment	79,905,329	6,107,758	(436,705)	85,576,382
Total capital assets being depreciated	134,721,180	9,146,375	(436,705)	143,430,850
Less accumulated depreciation	76,874,797	7,921,497	(453,078)	84,343,216
Total capital assets being depreciated - Net	57,846,383	1,224,878	16,373	59,087,634
Total capital assets - Net	\$ 62,591,633	\$ 2,089,401	\$ (1,312,847)	\$ 63,368,187

Note 7 - Advanced and Current Refundings

During the year, the Hospital issued \$32.5 million of variable rate obligation (revenue) bonds. A portion of the proceeds of these bonds were used to advance refund \$6.3 million of outstanding 2002 variable rate revenue bonds and \$10.7 million of outstanding 1995 revenue bonds with an average interest rate of 6.1 percent. The net proceeds of \$17.0 million (after payment of \$0.6 million in underwriting fees, insurance, and other costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt. The advance refunding reduced total debt service payments over the next 17 years by approximately \$1.4 million, which represents an economic gain of approximately \$0.4 million.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt

A summary of long-term debt at December 31, 2005 and 2004 is as follows:

	2005	2004
Hospital Revenue Bonds, Series 2005, bearing interest at variable rates (3.39 percent at December 31, 2005), and maturing in varying amounts through 2022	\$ 32,455,000	\$ -
Hospital Revenue Bonds, Series 2002, bearing interest at variable rates (1.98 percent at December 31, 2005), unless converted to a fixed rate in the future, through 2017	-	6,255,000
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$175,148 and \$187,886 at December 31, 2005 and 2004, respectively, bearing interest at rates ranging from 5.00 percent to 5.25 percent, and maturing in varying amounts through 2019	16,474,852	17,252,115
Hospital Revenue Bonds, Series 1995, net of unamortized bond discount of \$149,697 at December 31, 2005 and 2004, respectively, bearing interest at rates ranging from 4.5 percent to 6.5 percent and maturing in varying amounts through 2015	-	10,445,303
Hospital Revenue Bonds, Series 1994, bearing interest at rates ranging from 4.85 percent to 6.50 percent and maturing in varying amounts through 2007	-	3,885,000
Capital lease obligations and other long-term debt	493,470	982,960
Total	49,423,322	38,820,378
Less current portion	1,960,302	3,740,366
Long-term portion	\$ 47,463,020	\$ 35,080,012

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt (Continued)

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 Series 2005 Bonds are backed by an irrevocable direct-pay letter of credit with an initial term of seven years ending August 15, 2012. 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 variable rate Series 2005 bonds are remarketed on a weekly basis. 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. Repayment of any remarketing draws made as called for under the reimbursement agreement to the letter of credit is not due until the 368th day after the remarketing draw occurs. The Hospital is also required to meet certain covenants relating to, among other things, debt service coverage.

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 Hospital was required to meet certain covenants relating to, among other things, debt service coverage.

The Series 2002 Bonds were refunded in November 2005.

The Series 2005 and 2002 Bonds bear interest at a variable rate. During 2005, the rates for the variable rate bonds ranged from 1.52 percent to 3.59 percent (average rate 2.52 percent).

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt (Continued)

The Series 1999 Bonds consist of \$3,575,000 outstanding serial bonds which mature in increasing amounts from \$830,000 on November 15, 2006 to \$960,000 on November 15, 2009; \$5,650,000 term bonds due November 15, 2014; and \$7,425,000 term bonds due November 15, 2019. Early redemption privileges are available.

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

The Series 1995 Bonds were refunded in November 2005.

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 were refunded in November 2005.

At December 31, 2005, the fair value of the bonds of approximately \$50,273,000 exceeded the carrying value of approximately \$49,105,000.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt (Continued)

The following summarizes the outstanding long-term debt as of December 31, 2005 and 2004:

		2005				
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2005	8/18/2005	\$ -	\$ 32,455,000	\$ -	\$ 32,455,000	\$ 740,000
Series 2002	8/1/2003	6,255,000	-	(6,255,000)	-	-
Series 1999	10/1/1999	17,252,115	-	(777,263)	16,474,852	830,000
Series 1995	9/1/1995	10,445,303	-	(10,445,303)	-	-
Series 1994	9/1/1994	3,885,000	-	(3,885,000)	-	-
Capital lease	10/31/2001	745,536	161,656	(432,157)	475,035	371,867
File servers capital lease	2/1/2003	237,424	-	(218,989)	18,435	18,435
Total		\$ 38,820,378	\$ 32,616,656	\$ (22,013,712)	\$ 49,423,322	\$ 1,960,302
		2004				
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year
Bonds:						
Series 2002	8/1/2003	\$ 6,635,000	\$ -	\$ (380,000)	\$ 6,255,000	\$ 390,000
Series 1999	10/1/1999	17,994,376	-	(742,261)	17,252,115	790,000
Series 1995	9/1/1995	11,106,269	-	(660,966)	10,445,303	715,000
Series 1994	9/1/1994	5,035,000	-	(1,150,000)	3,885,000	1,225,000
Capital lease	10/31/2001	1,120,084	40,016	(414,564)	745,536	401,377
File servers capital lease	2/1/2003	452,338	-	(214,914)	237,424	218,989
Total		\$ 42,343,067	\$ 40,016	\$ (3,562,705)	\$ 38,820,378	\$ 3,740,366

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt (Continued)

The revenue bond payment requirements as of December 31, 2005 are as follows:

<u>January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,570,000	\$ 1,944,266	\$ 3,514,266
2007	1,640,000	1,879,179	3,519,179
2008	1,715,000	1,810,707	3,525,707
2009	2,840,000	1,732,558	4,572,558
2010	2,965,000	1,622,242	4,587,242
2011	3,105,000	1,504,374	4,609,374
2012	3,235,000	1,380,700	4,615,700
2013	3,385,000	1,251,574	4,636,574
2014	3,535,000	1,116,182	4,651,182
2015	3,695,000	974,497	4,669,497
2016	3,865,000	822,774	4,687,774
2017	4,040,000	663,731	4,703,731
2018	4,225,000	497,054	4,722,054
2019	4,425,000	322,270	4,747,270
2020	2,170,000	142,576	2,312,576
2021	1,320,000	78,359	1,398,359
2022	1,375,000	36,277	1,411,277
Total	<u>\$ 49,105,000</u>	<u>\$ 17,779,320</u>	<u>\$ 66,884,320</u>

The capital lease requirements as of December 31, 2005 are as follows:

<u>January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 390,302	\$ 5,387	\$ 395,689
2007	103,168	-	103,168
Total	<u>\$ 493,470</u>	<u>\$ 5,387</u>	<u>\$ 498,857</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 9 - Interest Rate Swap Agreements

On July 22, 2005, the Hospital entered into a fixed rate swap agreement on \$32.5 million of the Series 2005 bonds for a period of 17 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.17 percent and receives a floating rate equal to 67 percent of USD one-month London Interbank Offered Rate (LIBOR). The net amount paid or received under the swap agreement is included in interest expense. The swap rate ranged from 2.9 percent to 3.3 percent (average rate of 3.13 percent) in 2005.

Note 10 - 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 \$6,774,000 in 2005, \$6,572,000 in 2004, and \$6,145,000 in 2003. Employer contributions represented 13.55 percent of covered payroll in 2005, 2004, and 2003. Employee contributions were \$4,249,000 in 2005, \$4,123,000 in 2004, and \$3,936,000 in 2003, representing 8.5 percent of covered payroll. Approximately 96.0 percent 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, 2005 and 2004 was approximately \$49,992,000 and \$48,503,000, respectively. The Hospital's total payroll was approximately \$54,783,000 in 2005 and \$52,777,000 in 2004.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 10 - Employee Benefit Plans (Continued)

PERS does not make separate measurements of assets and accrued liabilities for individual employers. At December 31, 2004, 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	\$ 29,500
Net assets available for benefits	<u>10,800</u>
Unfunded actuarial accrued liability	<u>\$ 18,700</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, 2005, there are 376,109 active contributing participants throughout the State of Ohio in this plan. Of the total required Hospital contribution, 4.0 percent for the years 2005 and 2004 was actually made to fund postretirement health care benefits.

Note 11 - 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 percent in 2005 and 3 percent in 2004. The change in the liability for self-insurance is as follows:

	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 2,588,224	\$ 1,850,000
Provision for self-insurance	2,152,805	886,250
Claims paid and other	<u>(5,228)</u>	<u>(148,026)</u>
Ending balance	<u>\$ 4,735,801</u>	<u>\$ 2,588,224</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2005 and 2004

Note 11 - Medical Malpractice Claims (Continued)

For the years ended December 31, 2005 and 2004, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate and \$3 million per occurrence and \$9 million in the aggregate, respectively. The Hospital established an irrevocable trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

Note 12 - 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, 2005 and 2004, the liability for unpaid compensated absences was \$3,457,876 and \$3,097,087, respectively.

Note 13 - 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 \$1.4 million and \$1.2 million in 2005 and 2004, respectively. The Hospital records the net proceeds in net patient service revenue as funds are received.

Note 14 - Other Charges

During 2005, management identified certain circumstances which required an impairment review (as described in Note 1). Goodwill associated with the acquisition of the Med-Center One, a wholly owned subsidiary of the Hospital, was deemed to be impaired. As a result, the Hospital recorded an impairment charge of \$750,832.

Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

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

We have audited the financial statements of Robinson Memorial Portage County Hospital and Affiliates as of and for the year ended December 31, 2005 and have issued our report thereon dated March 31, 2006. 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 Robinson Memorial Portage County Hospital and Affiliates' financial statements are free of material misstatement, we performed tests of their 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 is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Robinson Memorial Portage County Hospital and Affiliates' 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 the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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.

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

However, a report was issued to management and the board of trustees under separate cover regarding internal control issues and operating efficiencies which we did not consider to be material weaknesses.

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

Plante & Moran, PLLC

March 31, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
JUNE 27, 2006**