

Robinson Memorial Portage County Hospital and Affiliates

**Financial Report
December 31, 2006**



Mary Taylor, CPA

Auditor of State

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, 2006 through December 31, 2006. 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 25, 2007

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Robinson Memorial Portage County Hospital and Affiliates

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Independent Auditor's Report

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

We have audited the accompanying balance sheet of Robinson Memorial Portage County Hospital and Affiliates (a component unit of Portage County) (the "Hospital") as of December 31, 2006 and 2005, and the related statements of revenue, 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 audit.

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, 2006 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 2, 2007 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, 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.

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 consisted 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 2, 2007

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis

The discussion and analysis of Robinson Memorial Portage County Hospital and Affiliates' (the "Hospital") financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended December 31, 2006, 2005, and 2004. 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 2006, total assets increased \$18.0 million over 2005 levels. Total cash and investments on hand at December 31, 2006 increased \$3.0 million over December 31, 2005. Net accounts receivable increased \$4.6 million. Net days revenue in accounts receivable were 51.0 days at December 31, 2006, compared to 41.6 days at December 31, 2005, and 52.6 days at December 31, 2004.
- 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.

The Hospital engages in securities lending activities whereby certain securities are loaned to other institutions. The Hospital receives as collateral the market value of the securities, plus 2 percent, and is obligated to return the collateral upon return of the borrowed securities. The value of these securities increased both current assets and current liabilities at the fair value of the collateral of \$40.1 million in 2006 and \$31.1 million in 2005.

- In 2006, total liabilities increased \$7.1 million, current liabilities increased \$9.9 million, mainly due to securities lending programs, and long-term liabilities decreased \$2.8 million due to reduction in self-insurance and other liabilities.
- 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 2006, additions to property, plant, and equipment were \$10.4 million compared to \$7.2 million in 2005 and \$8.7 million in 2004.
- In 2006, \$1.1 million was added for management information systems file servers via capital lease for 36 months with an implicit rate of 1.79 percent. 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.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

- Net cash provided by operating activities was \$10.8 million in 2006 versus \$15.1 million in 2005 and \$9.2 million in 2004.
- Operating income was approximately \$8.2 million in 2006 compared to an operating income of approximately \$3.2 million in 2005. In 2004, the Hospital had an operating loss of approximately \$0.3 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 and Affiliates as an entire operating entity.

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

While the county is empowered to appropriate money from its General Fund, from certain state and federal 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 by and used in 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 \$10.9 million to \$122.1 million at December 31, 2006 from \$111.2 million at December 31, 2005.

Table I provides a summary of the Hospital's total net assets at December 31, 2006 compared to December 31, 2005 and 2004.

Table I
Net Assets (in thousands)

	2006	2005	2004
Assets			
Current assets	\$ 71,284	\$ 59,261	\$ 30,392
Assets limited as to use	88,957	85,684	68,130
Other assets	2,579	2,345	2,183
Capital assets	65,043	62,569	63,368
	<u>65,043</u>	<u>62,569</u>	<u>63,368</u>
Total assets	<u>\$ 227,863</u>	<u>\$ 209,859</u>	<u>\$ 164,073</u>
Liabilities			
Current liabilities	\$ 56,245	\$ 46,340	\$ 17,774
Long-term debt	46,597	47,463	35,080
Other long-term liabilities	2,934	4,839	2,635
	<u>2,934</u>	<u>4,839</u>	<u>2,635</u>
Total liabilities	105,776	98,642	55,489
Net Assets			
Unrestricted	102,569	95,429	81,300
Invested in capital assets - Net of related debt	16,341	13,146	24,875
Restricted	3,177	2,642	2,409
	<u>3,177</u>	<u>2,642</u>	<u>2,409</u>
Total net assets	<u>122,087</u>	<u>111,217</u>	<u>108,584</u>
Total liabilities and net assets	<u>\$ 227,863</u>	<u>\$ 209,859</u>	<u>\$ 164,073</u>

In 2006, the Hospital's cash and investment position increased \$3.0 million from 2005 and in 2005 increased \$17.5 million from 2004 due to proceeds of the 2005 Bond Issue.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Accounts (in thousands)

	2006	2005	2004
Operating cash	\$ 7,110	\$ 7,434	\$ 7,364
Assets limited as to use	87,807	75,581	66,733
Trustee bond funds for current liabilities	1,149	10,103	1,397
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 96,066</u>	<u>\$ 93,118</u>	<u>\$ 75,494</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 in 2005 is due to proceeds from debt financing and improved cash collections. The decrease in trustee bond funds from 2005 to 2006 is due to capital expenditures which were funded from the 2005 Bonds.

Net Patient Accounts Receivable

Patient accounts receivable, net of allowance for uncollectibles, increased by \$4.6 million between December 31, 2005 and December 31, 2006 due to a decline in cash collections and decreases to the allowance for uncollectible accounts. Days in receivables increased by 9.4 days. Patient accounts receivable, net of allowance for uncollectibles, decreased by \$3.8 million between December 31, 2004 and 2005.

Capital Assets

Capital assets increased from \$62.6 million in 2005 to \$65.0 million in 2006. The increase relates to \$10.4 million in net capital additions, offset partially by \$8.0 million in depreciation expense. Capital additions include primarily the construction in progress related to the Robinson Medical Arts Building II, MIS file server replacements, and various clinical equipment replacements and upgrades.

Capital assets decreased from \$63.4 million in 2004 to \$62.6 million in 2005. The decrease related to \$7.2 million in net capital additions, offset by \$8.0 million in depreciation expense. The capital additions include primarily Kent Imaging Center build-out, related equipment for the imaging center, laboratory system upgrade, and various clinical equipment replacements 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 days cash on hand, supplemental rate, historical coverage, and cushion ratios. Ratios are defined in the bond indenture agreements. Management believes that the Hospital is in compliance with all bond covenants.

Ratios

	2006	2005	2004	Covenant
Days cash on hand	238.60	212.90	198.10	100.00
Maximum debt service coverage	4.27	3.03	2.12	1.50
Historical debt service coverage	5.37	2.45	2.14	1.10
Cushion ratio	17.98	15.81	11.75	1.50

Revenue and Expenses

Table 2 shows the changes in revenue and expenses for 2006 compared to 2005 and 2004.

Table 2
Revenue and Expenses (in thousands)

	2006	2005	2004
Operating Revenue	\$ 138,413	\$ 130,238	\$ 119,631
Operating Expense	<u>130,205</u>	<u>127,036</u>	<u>119,973</u>
Operating Income (Loss)	8,208	3,202	(342)
Nonoperating Revenue and Expenses			
Investment and other income - Net	4,065	3,028	4,218
Interest expense	(2,261)	(2,318)	(2,236)
Change in net unrealized gains and losses	<u>118</u>	<u>(1,451)</u>	<u>(1,952)</u>
Total nonoperating revenue and expenses	<u>1,922</u>	<u>(741)</u>	<u>30</u>
Excess of Revenues Over (Under) Expenses	10,130	2,461	(312)

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

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

	2006	2005	2004
Gifts, Grants, Bequests, and Other	\$ 740	\$ 532	\$ 274
Loss on Refunding of Long-term Debt	-	(360)	-
Increase (Decrease) in Net Assets	10,870	2,633	(38)
Net Assets - Beginning of year	<u>111,217</u>	<u>108,584</u>	<u>108,622</u>
Net Assets - End of year	<u>\$ 122,087</u>	<u>\$ 111,217</u>	<u>\$ 108,584</u>

Net Patient Service Revenue

Total operating revenues increased \$8.2 million, or 6.3 percent, in 2006 as compared to 2005 and \$10.6 million, or 8.9 percent, in 2005 as compared to 2004.

In 2006, inpatient days were higher by 1,229 days or 3.4 percent over 2005 levels, along with higher volumes in areas such as radiology and rehab.

In 2005, higher volumes were in areas such as the operating room, laboratory, radiology areas, endoscopy, and visiting nurse and hospice as compared to 2004.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Inpatient Business Activity

Total admissions in 2006 increased slightly. In 2005, admissions were 5.8 percent higher than 2004 (in thousands):

	2006	2005	2004	2006 to 2005 Percent Change
Internal medicine	4,691	3,379	3,429	38.8%
General surgery	614	724	701	(15.2%)
Pulmonary medicine	18	248	242	(92.7%)
Urology	45	63	43	(28.6%)
Oncology	236	288	184	(18.1%)
Other	47	22	19	113.6%
Gastroenterology	21	39	46	(46.2%)
Neurology	4	20	55	(80.0%)
Cardiovascular surgery	218	150	144	45.3%
Otolaryngology	5	18	42	(72.2%)
Cardiology	251	368	351	(31.8%)
Pediatrics	711	748	635	4.9%
Orthopedics	307	280	287	9.6%
OB/GYN	1,029	957	883	10.7%
Family practice	1,473	2,222	1,941	(33.7%)
Total	<u>9,670</u>	<u>9,526</u>	<u>9,002</u>	1.5%

In 2006, the Hospital hired a hospitalist group to manage a significant portion of inpatients, which accounts for a portion of the deviations between 2006 and 2005.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Total patient days (excluding newborns) increased by 1,030 days in 2006 and increased 1,192 days in 2005 from 2004. Length of stay (LOS) for Hospital inpatients has remained constant from 2004 levels as shown below:

Specialty

	Patient Days		
	2006	2005	2004
Medical/Surgical	29,989	28,483	28,081
Critical care	3,720	3,955	3,421
Pediatrics	-	202	247
Obstetrics	2,149	2,188	1,887
Subtotal	35,858	34,828	33,636
Newborn	1,483	1,284	1,260
Total	37,341	36,112	34,896

	Average Length of Stay		
	2006	2005	2004
Medical/Surgical	4.9	4.7	4.9
Critical care	2.2	2.4	2.0
Pediatrics	-	1.7	1.8
Obstetrics	2.3	2.3	2.3
Newborn	2.1	2.1	2.2

The increase in inpatient admissions can be attributed mainly to internal medicine and OB/GYN. The increase in patient days is attributed to medical/surgical days. In October 2005, the Hospital entered into a rental agreement with Akron Children's Hospital for its pediatric unit. This accounts for the decrease of pediatric admissions and patient days in 2006.

The increase in inpatient admissions in 2005 can be attributed mainly to family practice, oncology, and pediatrics. Patient days increased primarily due to medical/surgical days.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Outpatient Business Activity

The Hospital's outpatient gross revenue increased 10.7 percent, net of the overall 5 percent price increase, in 2006 after increasing 6.7 percent in 2005 and now accounts for 60 percent of patient revenue.

In February 2006, the Hospital opened the Robinson Imaging Center of Kent, which offers PET, MRI, CT, mammography, ultrasound, and general X-ray services. This center accounts for approximately \$7.4 million of outpatient revenues in 2006.

Other areas that recorded the largest increase in revenue during 2006 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

Contractual service adjustments were 53.5 percent of gross revenues in 2006 versus 52.7 percent in 2005 and 50.9 percent in 2004. The increased percentages are due to the price increases approved in 2006 and 2005 by the board of trustees which exceed increased reimbursements from Medicare and Medicaid and changes in negotiated reimbursement with third-party insurers.

Bad debt provision was \$6.2 million in 2006 vs. \$7.7 million for both 2005 and 2004.

Charity care for 2006 was \$13.7 million, an increase of \$4.3 million over the \$9.4 million in 2005. In 2004, charity care was \$6.7 million. The State of Ohio developed a program in the late 1980s 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 2006, the Hospital received \$1.6 million net from the Ohio Care Assurance Program, compared to \$1.4 million in 2005 and \$1.2 million in 2004.

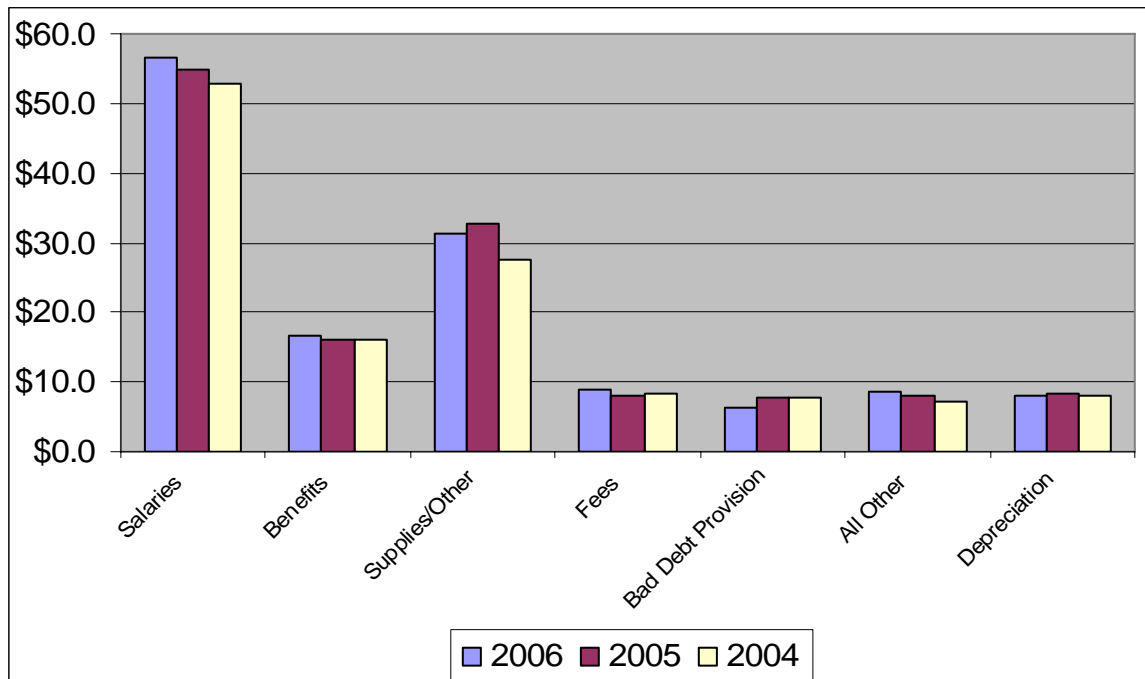
Operating Expenses

Total operating expenses in 2006 exceeded 2005 levels by \$3.2 million, or 2.5 percent, due to increased volumes and inflation. In 2005, total operating expenses were \$7.1 million, or 5.9 percent, higher than 2004.

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 2006 over 2005 levels are reflected in professional fees (14.6 percent), utilities (11.0 percent), and salaries (3.1 percent).

The major increases in 2005 over 2004 are in supplies, pharmaceuticals, utilities, and salaries.

Salaries

Salaries increased \$1.7 million, or 3.1 percent, in 2006 from 2005 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 2006 was 1,244.0 versus 1,239.1 in 2005 and 1,223.4 in 2004.

Supply and Other Expenses

Supply and other expense cost increased \$0.2 million, or .5 percent, in 2006 over the 2005 level.

Supply and other expenses increased 13.7 percent between 2004 and 2005 due mainly to malpractice costs increased due to a specific jury verdict rendered in December 2005 and the growth in the number of operating room procedures. Other increases included purchased services such as MRI, clinical lab fees, and contracted physicians.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Pharmaceuticals

Pharmaceuticals increased 4.0 percent in 2006 over 2005 levels due to increased volumes. For 2005, pharmaceutical costs increased by 12.7 percent over 2004 levels due mainly to increased volumes and increases in cost per dosage.

Utilities

Utilities increased 11.0 percent over 2005 levels due to increased cost of natural gas and electricity. In 2005, the increase in utilities was 13.1 percent and is also attributed to increased cost of natural gas and electricity.

Depreciation and Amortization

Depreciation and amortization decreased slightly (2.2 percent) as the Hospital opened the Robinson Imaging Center in Kent in February 2006. No other major building renovations occurred in 2006. The increase in 2005 from 2004 was also minor, with no major additions occurring.

Nonoperating Revenues and Expenses

Investment and Other Income

Investment and other income increased \$1.0 million in 2006 over 2005 due primarily to the rise in bond interest rates and the increased amount of investments.

Investment and other income decreased \$1.2 million from 2004 to 2005 due to the \$0.2 million reduction of a grant, \$0.6 million increase in realized losses on sale of investments, and a \$0.4 million reduction in donated capital assets.

Economic Factors and Next Year's Budget

The board of trustees approved the 2007 operating budget at their October 2006 meeting. This budget was developed after a review of key volume indicators and trends seen at other hospitals in Northeast Ohio as well as trends for the Hospital. The budget incorporated the Hospital's current strategic business plan, long-range information systems plan, as well as Portage County economic factors such as estimated population growth and unemployment rates.

The budget for the Hospital provides for operating income of \$4.5 million, a 3.1 percent operating margin. New volumes are projected in the 2007 budget from the addition of various physicians to the community. The 2007 operating budget projects \$7.9 million in income after other revenue, expenses, gains, and losses.

Robinson Memorial Portage County Hospital and Affiliates

Management's Discussion and Analysis (Continued)

Affiliation Agreement

The Hospital entered into an affiliation agreement with Summa Health System (Summa) effective January 1, 2007, to provide improved quality of, and access to, health care in the communities served by the Hospital and Summa, expand health care services offered in Portage County and surrounding communities, and deliver healthcare services more efficiently and cost effectively. The affiliation agreement also provides for a nonprofit Joint Operating Company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital facilities and develop and manage joint ventures between the two organizations. Each party has 50 percent ownership in Summa Robinson Health Ventures. The Hospital will maintain its status as a county-owned hospital pursuant to the provisions of the Ohio Revised Code Chapter 339 and will continue to be governed by a board of trustees appointed pursuant to Chapter 339.02 of the Ohio Revised Code.

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 (in thousands)

	December 31	
	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 7,110	\$ 7,434
Assets limited as to use - Required for current liabilities (Notes 2 and 5)	218	842
Patient accounts receivable - Less allowance for estimated uncollectible accounts of approximately \$4,257,000 in 2006 and \$5,048,000 in 2005	18,576	13,979
Estimated third-party payor settlements	460	601
Other current assets	44,920	36,405
Total current assets	71,284	59,261
Noncurrent Assets Limited as to Use or Restricted (Notes 2 and 5)	88,957	85,684
Capital Assets - Net (Note 6)	65,043	62,569
Other Assets	2,579	2,345
Total assets	\$ 227,863	\$ 209,859
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	\$ 2,105	\$ 1,960
Accounts payable	4,959	4,546
Accrued employee compensation	1,868	1,667
Accrued employee compensated absences (Note 12)	3,373	3,458
Accrued expenses	3,850	3,572
Other current liabilities	40,090	31,137
Total current liabilities	56,245	46,340
Long-term Debt (Note 8)	46,597	47,463
Self-insurance and Other Liabilities (Note 11)	2,934	4,839
Total liabilities	105,776	98,642
Net Assets		
Invested capital assets - Net of related debt	16,341	13,146
Restricted by donor for specific uses	3,177	2,642
Unrestricted	102,569	95,429
Total net assets	122,087	111,217
Total liabilities and net assets	\$ 227,863	\$ 209,859

Robinson Memorial Portage County Hospital and Affiliates

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

	Year Ended December 31	
	2006	2005
Operating Revenue		
Net patient service revenue	\$ 132,831	\$ 125,450
Other	5,582	4,788
Total operating revenue	138,413	130,238
Operating Expenses		
Salaries and wages	56,498	54,783
Employee benefits	16,716	16,129
Supplies and other expenses	31,412	31,259
Professional services	9,064	7,907
Utilities	2,618	2,358
Pharmaceutical	5,919	5,686
Depreciation and amortization	7,978	8,163
Other charges (Note 14)	-	751
Total operating expenses	130,205	127,036
Operating Income	8,208	3,202
Nonoperating Revenue and Expenses		
Investment and other income - Net	4,065	3,028
Interest expense	(2,261)	(2,318)
Changes in net unrealized gains and losses	118	(1,451)
Excess of Revenue Over Expenses	10,130	2,461
Gifts, Grants, Bequests, and Other	740	532
Loss on Refunding of Long-term Debt	-	(360)
Increase in Net Assets	10,870	2,633
Net Assets - Beginning of year	111,217	108,584
Net Assets - End of year	<u>\$ 122,087</u>	<u>\$ 111,217</u>

Robinson Memorial Portage County Hospital and Affiliates

Statement of Cash Flows (in thousands)

	Year Ended December 31	
	2006	2005
Cash Flows from Operating Activities		
Cash received from patients	\$ 128,375	\$ 128,692
Other cash receipts	5,582	4,789
Cash payments to suppliers	(50,024)	(47,503)
Cash payments to employees	(73,098)	(70,823)
Net cash provided by operating activities	10,835	15,155
Cash Flows from Noncapital Financing Activities - Gifts, grants, and bequests received	871	401
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	32,455
Purchase of property	(10,417)	(7,233)
Principal paid on debt	(1,964)	(22,013)
Interest paid on debt	(2,242)	(2,261)
Net cash (used in) provided by capital and related financing activities	(14,623)	948
Cash Flows from Investing Activities		
Purchases of investments	(49,765)	(30,404)
Sale of investments	47,446	25,949
Investment and other income	4,065	3,028
Changes in assets limited as to use	847	(15,007)
Net cash provided by (used in) investing activities	2,593	(16,434)
Net Increase (Decrease) in Cash and Cash Equivalents	(324)	70
Cash and Cash Equivalents - Beginning of year	7,434	7,364
Cash and Cash Equivalents - End of year	\$ 7,110	\$ 7,434
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 8,208	\$ 3,202
Adjustment to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	7,978	8,163
Provision for bad debts and other charges	6,226	8,407
Changes in assets and liabilities:		
Accounts receivable	(10,824)	(3,883)
Other current assets	(8,515)	(31,841)
Other assets	(234)	(912)
Accounts payable	413	(1,004)
Other current liabilities	8,953	31,136
Compensated absences and accrued employee compensation	116	88
Estimated third-party payor settlements	141	(531)
Other liabilities and accrued expenses	(1,627)	2,330
Net cash provided by operating activities	\$ 10,835	\$ 15,155

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note I - 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"), Robinson Health Affiliates, Inc., and the Preferred Provider Organization. The Hospital is the sole member of these entities. The Hospital exercises significant influence over these entities, considering them to be component units of the Hospital. These entities are presented in the Hospital's financial statements as blended components units. Investments in affiliates which are not majority-owned or controlled by the Hospital (Portage Physician Hospital Organization) are recorded on the equity method and are included in the balance sheet in other assets, which amounted to \$13 and \$20 at December 31, 2006 and 2005, respectively.

The Hospital entered into a 10-year affiliation agreement with Akron General Medical Center (AGMC) which expires June 30, 2014, the purpose of which is to jointly construct, equip, and operate a radiation therapy center at the Hospital which does business under the name of Robinson Radiation Oncology Center (RROC). Under this affiliation agreement, both parties agree to equally share the cost of leasehold improvements, leasing of equipment, and contribution of working capital. In addition, each party has a 50 percent representation in a management committee, which will oversee operations of RROC, and have agreed to distribute equally the excess revenue over expenses derived from RROC. RROC became operational January 1, 2005 and is accounted for on the equity method. At December 31, 2006 and 2005, the Hospital has recorded an asset of \$767 and \$501, respectively, equal to the investment in RROC.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 and excess (stop-loss) coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for medical malpractice claims.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

Classification of Net 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 \$251 and \$214 for the years ended December 31, 2006 and 2005, 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, 2006 and 2005 (amounts in 000s)

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 28 percent and 31 percent of the Hospital's patient service revenue for the years ended December 31, 2006 and 2005, respectively. Medicaid revenue accounted for approximately 6 percent and 8 percent for the years ended December 31, 2006 and 2005, respectively, and Medical Mutual of Ohio revenue accounted for approximately 19 percent and 22 percent for the years ended December 31, 2006 and 2005, 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.

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

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note I - Summary of Significant Accounting Policies (Continued)

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.

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 1 - Summary of Significant Accounting Policies (Continued)

Outstanding pledges receivable from various corporations, foundations, and individuals at December 31, 2006 and 2005 are as follows (in thousands):

	2006	2005
Pledges due:		
In less than one year	\$ 223	\$ 97
In one to five years	325	335
	<u>548</u>	<u>432</u>
Total	548	432
Allowance for doubtful pledges	<u>(11)</u>	<u>(9)</u>
Net	<u>\$ 537</u>	<u>\$ 423</u>

Note 2 - Deposits and Investments

Deposits

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

Custodial risk is the risk that, in the event of bank failure, the Hospital's deposits might not be recovered. The Hospital's bank deposits, in thousands, at December 31, 2006 and 2005 totaled \$5,979 and \$4,659, respectively, and were subject to the following categories of custodial risk (in thousands):

	2006	2005
Collateralized with securities held by the pledging institution's trust department, but not in the Hospital's name	\$ 5,659	\$ 4,339
Amount insured	<u>320</u>	<u>320</u>
Total bank balances	<u>\$ 5,979</u>	<u>\$ 4,659</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 2 - Deposits and Investments (Continued)

Investments

As of December 31, 2006 and 2005, the fair value of the Hospital's investments was as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 1,942	\$ 8,456
Equities	1,287	1,198
U.S. government obligations	87,837	79,455
Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (federal pools)	2,440	2,936
Corporate bonds	<u>106</u>	<u>114</u>
Total investments	<u>\$ 93,612</u>	<u>\$ 92,159</u>

The carrying amounts of the Hospital's deposits and investments at December 31, 2006 and 2005 were as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Deposits	\$ 2,673	\$ 1,801
Investments	<u>93,612</u>	<u>92,159</u>
Total deposits and investments	<u>\$ 96,285</u>	<u>\$ 93,960</u>

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

Interest Rate Risk - The Hospital's investment policies limit the investment portfolio to a weighted average life of seven years or less. All of the Hospital's investments at December 31, 2006 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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Hospital's investments held by 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) included \$40,089 and \$31,136 of collateral investments at December 31, 2006 and 2005, respectively.

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of direct charity care it provides. For 2006 and 2005, the estimated charges forgone of providing charity care services and supplies were approximately \$13,677 and \$9,442, respectively.

Note 4 - Net Patient Service Revenue

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

Program examinations of cost reports have been finalized for the Medicare program through 2005 and the Medicaid program through 2002. Provisions for estimated reimbursement adjustments have been provided in the accompanying financial statements.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 4 - Net Patient Service Revenue (Continued)

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.

Note 5 - Noncurrent Assets Limited as to Use or Restricted

As of December 31, 2006 and 2005, assets limited as to use or restricted have been set aside at fair value as follows (in thousands):

	2006	2005
Board of trustees:		
Excess and funded depreciation	\$ 78,231	\$ 67,623
Self-insurance trust	5,254	5,655
Funds held by trustee under bond indenture	932	9,261
Total assets limited to use by board designation	84,417	82,539
By donor:		
Unrestricted	1,916	1,616
Restricted	2,842	2,371
Total by donor	4,758	3,987
Total assets limited as to use or restricted	89,175	86,526
Less assets limited as to use or restricted - Required for current liabilities	218	842
Total	\$ 88,957	\$ 85,684

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 5 - Noncurrent Assets Limited as to Use or Restricted (Continued)

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.

Note 6 - Capital Assets

Capital assets consist of the following at December 31, 2006 and 2005 (in thousands):

	2006			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 4,306	\$ 683	\$ (77)	\$ 4,912
Construction in progress	1,258	3,766	(1,258)	3,766
Total capital assets not being depreciated	5,564	4,449	(1,335)	8,678
Capital assets being depreciated:				
Buildings	58,520	1,752	(37)	60,235
Fixed and movable equipment	90,128	5,459	(1,350)	94,237
Total capital assets being depreciated	148,648	7,211	(1,387)	154,472
Less accumulated depreciation	91,643	7,920	(1,456)	98,107
Total capital assets being depreciated - Net	57,005	(709)	69	56,365
Total capital assets - Net	\$ 62,569	\$ 3,740	\$ (1,266)	\$ 65,043

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 6 - Capital Assets (Continued)

	2005			Ending Balance
	Beginning Balance	Increase	Decrease	
Capital assets not being depreciated:				
Land and land improvements	\$ 4,281	\$ 25	\$ -	\$ 4,306
Construction in progress	-	1,258	-	1,258
Total capital assets not being depreciated	4,281	1,283	-	5,564
Capital assets being depreciated:				
Buildings	57,855	665	-	58,520
Fixed and movable equipment	85,576	5,284	(732)	90,128
Total capital assets being depreciated	143,431	5,949	(732)	148,648
Less accumulated depreciation	84,343	8,014	(714)	91,643
Total capital assets being depreciated - Net	59,088	(2,065)	(18)	57,005
Total capital assets - Net	\$ 63,369	\$ (782)	\$ (18)	\$ 62,569

Note 7 - Advanced and Current Refundings

During 2005, the Hospital issued \$32,455 of variable rate obligation (revenue) bonds. A portion of the proceeds of these bonds was used to advance refund \$6,255 of outstanding 2002 variable rate revenue bonds and \$10,595 of outstanding 1995 revenue bonds with an average interest rate of 6.1 percent. The net proceeds of \$17,000 (after payment of \$600 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 \$1,400, which represents an economic gain of approximately \$400.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 8 - Long-term Debt

A summary of long-term debt at December 31, 2006 and 2005 is as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Hospital Revenue Bonds, Series 2005, bearing interest at variable rates (3.96 percent at December 31, 2006), and maturing in varying amounts through 2022	\$ 31,715	\$ 32,455
Hospital Revenue Bonds, Series 1999, net of unamortized bond discount of \$162 and \$175 at December 31, 2006 and 2005, respectively, bearing interest at rates ranging from 5.05 percent to 5.75 percent, and maturing in varying amounts through 2019	15,658	16,475
Capital lease obligations and other long-term debt	<u>1,329</u>	<u>493</u>
Total	48,702	49,423
Less current portion	<u>2,105</u>	<u>1,960</u>
Long-term portion	<u>\$ 46,597</u>	<u>\$ 47,463</u>

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.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 8 - Long-term Debt (Continued)

The Series 2005 Bonds bear interest at a variable rate. During 2006, the rates for the variable rate bonds ranged from 2.98 percent to 4.02 percent (average rate 3.50 percent).

The Hospital Revenue Bonds, Series 1999 (Series 1999 Bonds) were issued by the County of Portage, Ohio (the "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 (the "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 \$2,745 outstanding serial bonds which mature in increasing amounts from \$870 on November 15, 2007 to \$960 on November 15, 2009; \$5,650 term bonds due November 15, 2014; and \$7,425 term bonds due November 15, 2019. Early redemption privileges are available.

At December 31, 2006, the fair value of the bonds of approximately \$48,429 exceeded the carrying value of approximately \$47,535.

In December 2006, the Hospital entered into a three-year lease for purchase of file servers at an implicit interest rate of 1.79 percent.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 8 - Long-term Debt (Continued)

The following summarizes the outstanding long-term debt as of December 31, 2006 and 2005 (in thousands):

		2006					
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year	
Bonds:							
Series 2005	8/18/2005	\$ 32,455	\$ -	\$ (740)	\$ 31,715	\$ 770	
Series 2002	8/1/2003	-	-	-	-	-	
Series 1999	10/1/1999	16,475	-	(817)	15,658	870	
Series 1995	9/1/1995	-	-	-	-	-	
Series 1994	9/1/1994	-	-	-	-	-	
Capital lease	10/31/2001	475	98	(389)	184	90	
File servers capital lease	2/1/2003	18	-	(18)	-	-	
File servers capital lease	12/28/2006	-	1,145	-	1,145	375	
Total		<u>\$ 49,423</u>	<u>\$ 1,243</u>	<u>\$ (1,964)</u>	<u>\$ 48,702</u>	<u>\$ 2,105</u>	

		2005					
	Date of Issuance	Beginning Balance	Additions	Paid or Retired	Ending Balance	Due Within One Year	
Bonds:							
Series 2005	8/18/2005	\$ -	\$ 32,455	\$ -	\$ 32,455	\$ 740	
Series 2002	8/1/2003	6,255	-	(6,255)	-	-	
Series 1999	10/1/1999	17,252	-	(777)	16,475	830	
Series 1995	9/1/1995	10,445	-	(10,445)	-	-	
Series 1994	9/1/1994	3,885	-	(3,885)	-	-	
Capital lease	10/31/2001	746	161	(432)	475	372	
File servers capital lease	2/1/2003	237	-	(219)	18	18	
Total		<u>\$ 38,820</u>	<u>\$ 32,616</u>	<u>\$ (22,013)</u>	<u>\$ 49,423</u>	<u>\$ 1,960</u>	

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 8 - Long-term Debt (Continued)

The revenue bond payment requirements as of December 31, 2006 are as follows (in thousands):

January 1	Principal	Interest	Total
2007	\$ 1,640	\$ 1,879	\$ 3,519
2008	1,715	1,811	3,526
2009	2,840	1,733	4,573
2010	2,965	1,622	4,587
2011	3,105	1,504	4,609
2012	3,235	1,381	4,616
2013	3,385	1,252	4,637
2014	3,535	1,116	4,651
2015	3,695	974	4,669
2016	3,865	823	4,688
2017	4,040	664	4,704
2018	4,225	497	4,722
2019	4,425	322	4,747
2020	2,170	143	2,313
2021	1,320	78	1,398
2022	1,375	36	1,411
	<u>\$ 47,535</u>	<u>\$ 15,835</u>	<u>\$ 63,370</u>
Total			

The capital lease requirements as of December 31, 2006 are as follows (in thousands):

January 1	Total Capital Lease Obligations		
	Principal	Interest	Total
2007	\$ 465	\$ 18	\$ 483
2008	476	11	487
2009	388	3	391
	<u>\$ 1,329</u>	<u>\$ 32</u>	<u>\$ 1,361</u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 9 - Interest Rate Swap Agreements

On July 22, 2005, the Hospital entered into a fixed rate swap agreement on \$32,455 of the Series 2005 bonds for a period of 17 years. Under the fixed rate swap agreement, the Hospital pays a fixed rate of 3.17 percent and receives a floating rate equal to 67 percent of 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 3.6 percent (average rate of 3.4 percent) in 2007.

Note 10 - Employee Benefit Plans

The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. Total required employer contributions made were \$7,106 in 2006, \$6,774 in 2005, and \$6,572 in 2004. Employer contributions represented 13.70 percent of covered payroll in 2006 and 13.55 percent for years 2005 and 2004. Employee contributions were \$4,668 in 2006, \$4,249 in 2005, and \$4,123 in 2004, representing 9.0 percent of covered payroll in 2006 and 8.5 percent of covered payroll in years 2005 and 2004 and were consistent across all three plans (TP, MD, CO) and are actuarially determined. In 2006, approximately 95.5 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. For 2005 and 2004, 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, 2006 and 2005 was approximately \$51,871 and \$49,992, respectively. The Hospital's total payroll was approximately \$56,498 in 2006 and \$54,783 in 2005.

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, 2006 and 2005 (amounts in 000s)

Note 10 - Employee Benefit Plans (Continued)

PERS does not make separate measurements of assets and accrued liabilities for individual employers. At December 31, 2005, 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	\$ 31,300
Net assets available for benefits	<u>11,100</u>
Unfunded actuarial accrued liability	<u><u>\$ 20,200</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. The number of active contributing participants in the Traditional and Combined Plans at December 31, 2006 was 369,214. Of the total required Hospital contribution, 4.5 percent for 2006 and 4.0 percent for 2005 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 for years 2006 and 2005, respectively. The change in the liability for self-insurance is as follows (in thousands):

	2006	2005
Beginning balance	\$ 4,736	\$ 2,588
Provision for self-insurance	986	2,153
Claims paid and other	<u>(2,875)</u>	<u>(5)</u>
Ending balance	<u><u>\$ 2,847</u></u>	<u><u>\$ 4,736</u></u>

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 11 - Medical Malpractice Claims (Continued)

For the years ended December 31, 2006 and 2005, the Hospital's self-insured retention limits are \$2 million per occurrence and \$6 million in the aggregate. The Hospital established an irrevocable trust fund for the payment of medical malpractice claims settlements, which is included in assets limited as to use or restricted. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

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, 2006 and 2005, the liability for unpaid compensated absences was \$3,373 and \$3,458, 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 approximately \$1,600 and \$1,400 in 2006 and 2005, 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 \$751.

Robinson Memorial Portage County Hospital and Affiliates

Notes to Financial Statements December 31, 2006 and 2005 (amounts in 000s)

Note 15 - Subsequent Event

The Hospital entered into an affiliation agreement with Summa Health System (Summa), effective January 1, 2007, to provide improved quality of, and access to, health care in the communities served by the Hospital and Summa, expand health care services offered in Portage County and surrounding communities, and deliver health care services more efficiently and cost effectively. The affiliation agreement also provides for a nonprofit Joint Operating Company, to be known as Summa Robinson Health Ventures, which will manage the operations of the Hospital facilities and develop and manage joint ventures between the two organizations. Each party has a 50 percent ownership in Summa Robinson Health Ventures. The Hospital will maintain its status as a county-owned hospital pursuant to the provisions of the Ohio Revised Code Chapter 339 and will continue to be governed by a board of trustees appointed pursuant to Chapter 339.02 of the Ohio Revised Code.

Report on Internal Control and Compliance

To the Board of Directors
Robinson Memorial Portage County Hospital

We have audited the financial statements of Robinson Memorial Portage County Hospital (a component unit of Portage County) as of and for the year December 31, 2006 and have issued our report thereon dated March 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Robinson Memorial Portage County Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Robinson Memorial Portage County Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Robinson Memorial Portage County Hospital

Compliance and Other Matters

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

We noted certain matters that we reported to management of Robinson Memorial Portage County Hospital in a separate letter dated March 2, 2007.

This report is intended solely for the information and use of the auditor of the State of Ohio, the board of directors of Robinson Memorial Portage County Hospital, 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 2, 2007



Mary Taylor, CPA
Auditor of State

ROBINSON MEMORIAL PORTAGE COUNTY HOSPITAL AND AFFILIATES

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**