Berger Health System

Financial Report
with Additional Information
December 31, 2009

Mary Taylor, CPA
Auditor of State

Board of Directors
Berger Health System
600 North Pickaway Street
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the Berger Health System, Pickaway County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2009 through December 31, 2009. 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 Berger Health System is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 7, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

Contents

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 Governors
Berger Health System

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System"), a component unit of the City of Circleville, as of December 31, 2009 and 2008, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System, a component unit of the City of Circleville, at December 31, 2009 and 2008 and the respective changes in financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The information presented in the management's discussion and analysis includes amounts related to the component units rather than presenting information of the primary government. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Governors
Berger Health System

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2010 on our consideration of the System'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 opinions on the effectiveness of 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 read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 27, 2010

This section of Berger Health System's (the "System') annual financial statements presents background information and management's discussion and analysis (MD&A) of the System's financial performance during the year ended December 31, 2009. This MD&A includes a discussion and analysis of the activities and results of the primary government entity, Berger Hospital, and its component units of Pickaway Health Services (PHS), Pickaway Professional Services (PPS), and Berger Health Foundation (BHF).

This MD&A should be read together with the financial statements included in this report as the financial statements present the primary government entity and component units using the methods described in Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

Financial Highlights

- The System's net assets increased to $57.9 million in 2009. This was a $1 million increase from 2008.

- During the year, the System's net operating revenue increased by 5.7 percent to $77.2 million while expenses increased by 4.1 percent to $75.3 million.

- Throughout 2009, the System made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations:

    - Purchase of a new 64-slice CT scanner

    - Updated IT infrastructure with the addition of image archiving and electronic prescriptions through Patient Keeper

    - Diagnostic equipment purchases in laboratory, surgery and cardiopulmonary

Financial Statements

The financial statements of the System present information about the System using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information.

The balance sheet includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the financial results of the System's operations and presents revenue earned and expenses incurred.

The final financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the System's cash flows from operating activities, financing activities, and investing activities. The statement also provides information on the sources and uses of cash during the year.

Financial Analysis

The balance sheet and the statement of revenue, expenses, and changes in net assets report information about the System's net assets and their changes. Increases or decreases in the System's net assets are one indicator of financial health. Other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent), government legislation, and the System's strategic plan should also be considered.

A summary of the System's balance sheet as of December 31, 2009, 2008, and 2007 is presented below (in thousands). As can be seen, net assets increased to $57.9 million in 2009, up from $56.9 million in 2008 and up from $56.2 million in 2007.

	2009	2008	$ Change 2009-2008	% Change 2009-2008	2007
Cash and investments	$ 32,978	$ 31,167	$ 1,811	5.8%	$ 31,156
Capital assets	42,447	44,740	(2,293)	-5.1%	48,545
Other assets	11,433	13,553	(2,120)	-15.6%	9,777
Total assets	**$ 86,858**	**$ 89,460**	**$ (2,602)**	**-2.9%**	**$ 89,478**
Current and other liabilities	$ 11,428	$ 11,573	$ (145)	-1.3%	$ 10,923
Long-term debt	17,577	20,970	(3,393)	-16.2%	22,316
Total liabilities	29,005	32,543	(3,538)	-10.9%	33,239
General	56,924	56,044	880	1.6%	55,568
Restricted	929	873	56	6.4%	671
Total net assets	57,853	56,917	936	1.6%	56,239
Total liabilities and net assets	**$ 86,858**	**$ 89,460**	**$ (2,602)**	**-2.9%**	**$ 89,478**

A summary of the System's statement of revenue, expenses, and changes in net assets for the years ended December 31, 2009, 2008, and 2007 is presented below (in thousands).

	2009	2008	$ Change 2009-2008	% Change 2009-2008	2007
Revenue					
Net patient revenue	$ 74,351	$ 70,487	$ 3,864	5.5%	$ 64,799
Other	2,822	2,555	267	10.5%	2,507
Total revenue	77,173	73,042	4,131	5.7%	67,306
Expenses					
Salaries and benefits	38,812	37,919	893	2.4%	36,338
Supplies and other	31,003	28,804	2,199	7.6%	25,694
Depreciation	5,493	5,594	(101)	-1.8%	5,561
Total expenses	75,308	72,317	2,991	4.1%	67,593
Gain (loss) from operations	1,865	725	1,140	157.2%	(287)
Nonoperating (loss) income	(985)	(249)	(736)	295.6%	436
Excess of revenue over expenses	880	476	404	84.9%	149
Change in restricted fund balance	56	202	(146)	-72.3%	370
Net assets - Beginning of year	56,917	56,239	678	1.2%	55,720
Net assets - End of year	**$ 57,853**	**$ 56,917**	**$ 936**	**1.6%**	**$ 56,239**

Operating and Financial Performance

Sources of Revenue

During 2009, the System derived substantially all of its revenue from patient services. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross patient revenue, by payer, for the years ended December 31, 2009, 2008, and 2007:

Payer	2009	2008	2007
Medicare	43.4%	41.9%	42.9%
Medicaid	15.8%	16.1%	16.2%
Commercial	33.2%	34.6%	33.0%
BWC	1.4%	1.1%	1.4%
Self pay	6.0%	6.1%	6.3%
Other	0.2%	0.2%	0.2%

The System provides care to patients under payment arrangements with Medicare, Medicaid, and various commercial programs. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs as defined in each contract. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payments.

Revenue

Net operating revenue increased $4.1 million in 2009 primarily as a result of a shift to a more favorable payer mix. Also contributing to the increase in net patient revenue was an overall rate adjustment put in place January 1, 2009. Further discussion follows:

- Overall activity of the System as measured by patient admissions adjusted for outpatient services decreased to 9,385 in 2009 from 9,850 in 2008. This was a decrease of 4.7 percent. The variables described below contributed to the increase in adjusted admissions.

    - Inpatient activity levels during 2009 decreased in terms of patient days and in terms of admissions, resulting in patient days and admissions of 12,635 and 3,458, respectively. Inpatient rehabilitation realized an increase of 328 patient days.

    - Overall outpatient visits during 2009, including emergency and clinic visits, were 97,148 or 1.9 percent above 2008 levels. Increases in outpatient activity were noted in the emergency room of 6.8 percent and laboratory services of 45.1 percent. The increase in laboratory services is due to increasing the reference lab volumes from local physician offices.

- During 2009, net receipts from the Health Care Assurance Program (HCAP) of $725,000 were recognized. HCAP is a State program that helps hospitals partially offset losses from treating indigent patients by generating matching funds from the federal government through assessments and disbursements made to each Ohio hospital.

- Included in net patient service revenue are charges for patient services waived under the System's charity care and HCAP policies. Both represent unreimbursed charges incurred by the System in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and income levels. Based on established rates, gross charges of $6.6 million were waived during 2009. Management's commitment to provide care for all patients without regard of their ability to pay and the growing number of uninsured continues to contribute to these levels.

Expenses

Total operating expenses increased by $3.0 million in 2009, which was attributed to management's focused efforts to match expense growth with new services and increased service demand of current services. Further discussion follows:

- Salaries and wages increased $488,000 or 2.4 percent from FY 2008. This increase includes merit adjustments (between 3 percent and 5 percent) during the year as well as adjustments in staffing levels throughout the System. The hospital staffing remained constant when compared to 2008.

- Benefits increased $405,000 from FY 2008. The increase was due to an increase in health insurance claims paid for employees and their dependents under the hospital's self-funded health insurance benefit.

Statement of Cash Flows

Another way to assess the System's financial health is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity. The statement of cash flows also helps assess an entity's ability to generate future cash flows, an entity's ability to meet its obligations, and an entity's need for external financing.

	2009	2008	Increase (Decrease)	2007
Cash provided by (used in):				
Operating activities	$ 6,192,017	$ 5,965,672	$ 226,345	$ 7,132,077
Financing activities	(6,647,167)	(3,810,942)	(2,836,225)	(250,149)
Investing activities	2,439,975	(3,893,013)	6,332,988	(3,975,224)
Net increase (decrease) in cash	1,984,825	(1,738,283)	3,723,108	2,906,704
Cash - Beginning of year	1,951,691	3,689,974	(1,738,283)	783,270
Cash - End of year	$ 3,936,516	$ 1,951,691	$ 1,984,825	$ 3,689,974

The System's liquidity position improved by $2.0 million from 2008 results. Listed below is an overview of the cash flows presented above.

- Cash generated by operations was $6.2 million in 2009 ($6.0 million in 2008).

- Cash used was $3.2 million for fixed asset additions in 2009 ($1.7 million in 2008) and $2.6 million for debt repayments ($2.6 million in 2008). Cash used in financing activities was $3.5 million in 2009 ($2.3 million in 2008). Equity transfers in 2009 were $4.0 million to component units ($4.8 million in 2008).

In 2009, Berger Health System continued to utilize its financial strength to build infrastructure to ensure that health care is provided locally in the future. The healthcare infrastructure includes the medical office building, the purchase of additional capital assets, recruitment of new physicians, and the development of clinics in the southern and northwestern part of Pickaway County.

More information about the System's statement of cash flow is presented in the notes to the financial statements.

Actual to Budget Performance

As specified in the System's bylaws, the board of governors is required to approve an annual budget. An actual to budget comparison and analysis is presented monthly to the board. The final 2009 results are summarized below (in thousands):

	2009 Actual	2009 Budget	$ Change	% Change
Revenue:				
Net patient revenue	$ 74,351	$ 74,790	$ (439)	-0.6%
Other	2,822	2,368	454	19.2%
Total revenue	77,173	77,158	15	-
Expenses:				
Salaries and benefits	38,812	39,593	(781)	-2.0%
Supplies and other	31,003	30,988	15	-
Depreciation	5,493	5,411	82	1.5%
Total expenses	75,308	75,992	(684)	-0.9%
Gain from operations	1,865	1,166	699	59.9%
Nonoperating loss	(985)	(844)	(141)	16.7%
Excess of revenue over expenses	$ 880	$ 322	$ 558	173.3%

In comparing actual versus budgeted 2009 results, the following variances were noted:

- In 2009, the System's actual gain from operations was $699,000 better than budgeted for the year. The major contributors to this variance are described below:
  - Total operating expenses were under budget by $684,000.
  - Employee compensation was under budget by $781,000 due to decreased health insurance expense and management's focus on maintaining staffing efficiencies.
  - Depreciation expense was over budget by $82,000.
  - Supplies and other expenses were over budget by $15,000.

Capital Assets

During 2009, the System invested $3.2 million in a broad range of capital assets included in the table below (in thousands):

	2009	2008	$ Change 2009-2008	% Change 2009-2008	2007
Land and land improvements	$ 5,201	$ 5,200	$ 1	-	$ 5,193
Buildings and fixed equipment	61,092	60,146	946	1.6%	59,788
Major moveable equipment	40,256	38,113	2,143	5.6%	36,956
Total capital assets	106,549	103,459	3,090	3.0%	101,937
Less accumulated depreciation	(64,528)	(59,066)	(5,462)	9.2%	(53,498)
Construction in progress	426	347	79	22.8%	106
Capital assets - Net	$ 42,447	$ 44,740	$ (2,293)	-5.1%	$ 48,545

Capital assets have increased due to the fact that the System purchased the following:

- Purchase of a new 64-slice CT scanner
- Updated IT infrastructure with the addition of image archiving and electronic prescriptions through Patient Keeper
- Diagnostic equipment purchases in laboratory, surgery, and cardiopulmonary

Other increases in capital assets can be attributed to the fact that the System continues to replace equipment as it becomes obsolete as well as upgrade the capabilities of its health information system.

The table below shows the System's 2010 capital budget with projected spending of $4.3 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(In thousands)
Information system upgrade	$ 684
Replacement equipment	767
Building improvements	2,864
Total	$ 4,315

More information about the System's capital assets is presented in the notes to the financial statements.

Long-term Debt

At year end, the System had $21.0 million in short-term and long-term notes and bonds, a decrease from $23.6 million at December 31, 2008. Principal payments on long-term debt in 2009 were approximately $2.6 million. More detailed information about the System's long-term debt is presented in the notes to the financial statements.

Economic Factors and 2010 Budget

The System's board and management considered many factors when setting the 2010 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Federal healthcare reform
- Privacy legislation - Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information (Sarbanes-Oxley Act)
- Increasing number of uninsured

- Increasing cost of employee benefits
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Pickaway County, continuous quality improvement, cost control, capital requirements, and financing/refinancing to maximize balance sheet performance.

Contacting the System's Financial Officer

This report is designed to provide our citizens, customers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability. If you have questions about this report or need additional financial information, contact the vice president of finance, David Paugh, at (740) 420-8404 or david.paugh@bergerhealth.com.

Balance Sheet

	December 31, 2009		December 31, 2008	
	Hospital	Component Units	Hospital	Component Units
Assets				
Current Assets				
Cash and cash equivalents	$ 3,601,671	$ 244,846	$ 618,921	$ 214,429
Restricted cash and cash equivalents	90,000	-	1,118,341	-
Short-term investments (Note 2)	28,326,251	715,073	28,634,328	582,272
Net patient accounts receivable (Note 3)	7,608,964	684,038	7,156,407	732,368
Prepaid expenses and other	802,959	140,352	1,000,642	176,911
Inventory	1,487,414	-	1,445,230	-
Total current assets	41,917,259	1,784,309	39,973,869	1,705,980
Long-term Investments (Note 2)	-	624,136	2,333,137	599,131
Property and Equipment - Net (Note 4)	41,918,176	529,193	44,173,749	566,004
Other Assets - Bond issue costs	85,255	-	109,080	-
Total assets	**$ 83,920,690**	**$ 2,937,638**	**$ 86,589,835**	**$ 2,871,115**
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt (Note 5)	$ 3,392,579	$ -	$ 2,584,113	$ -
Accounts payable	3,060,597	118,329	3,981,393	136,597
Estimated third-party payor settlements	282,854	-	204,823	-
Accrued liabilities and other	2,416,118	612,683	2,509,128	649,815
Total current liabilities	9,152,148	731,012	9,279,457	786,412
Long-term Debt - Net of current portion (Note 5)	17,577,418	-	20,969,997	-
Other Liabilities - Accrued compensated absences (Note 5)	1,300,717	244,122	1,257,885	249,856
Total liabilities	28,030,283	975,134	31,507,339	1,036,268
Net Assets				
Invested in capital assets - Net of related debt	20,948,179	529,193	20,619,639	566,004
Restricted - Expendable for capital improvements, debt service, and other purposes	26,768	901,811	29,708	843,162
Unrestricted	34,915,460	531,500	34,433,149	425,681
Total net assets	55,890,407	1,962,504	55,082,496	1,834,847
Total liabilities and net assets	**$ 83,920,690**	**$ 2,937,638**	**$ 86,589,835**	**$ 2,871,115**

The Notes to Financial Statements are an Integral Part of this Statement.

Berger Health System

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2009		December 31, 2008	
	Hospital	Component Units	Hospital	Component Units
Operating Revenues				
Net patient service revenue	$ 68,365,936	$ 5,984,640	$ 64,650,879	$ 5,834,880
Other	1,598,835	1,223,893	1,538,137	1,017,546
Total operating revenues	69,964,771	7,208,533	66,189,016	6,852,426
Operating Expenses				
Salaries and wages	22,732,004	6,796,144	21,977,770	7,061,834
Employee benefits and payroll taxes	8,212,743	1,070,846	7,683,622	1,194,568
Operating supplies and other	20,079,749	1,697,305	19,226,054	1,735,545
Professional services and consultant fees	3,441,539	4,925	2,693,655	388
Purchased services	3,188,859	1,249,666	2,855,511	1,304,534
Insurance	593,924	352,337	620,808	367,802
Depreciation and amortization	5,456,646	36,811	5,559,195	35,639
State hospital tax	395,000	-	-	-
Total operating expenses	64,100,464	11,208,034	60,616,615	11,700,310
Operating Income (Loss)	5,864,307	(3,999,501)	5,572,401	(4,847,884)
Other Income (Expenses)				
Interest income	191,893	44,337	1,123,034	11,494
Gain on sale of property	6,622	-	19,425	-
Contributions	278,236	-	108,417	-
Interest expense	(934,768)	-	(1,064,216)	-
Other expense	(571,267)	-	(446,467)	-
Total other (expenses) income	(1,029,284)	44,337	(259,807)	11,494
Excess of Revenue Over (Under) Expenses	4,835,023	(3,955,164)	5,312,594	(4,836,390)
Contribution from (to) Component Units	(4,024,172)	4,024,172	(4,772,739)	4,772,739
(Expenditures) Contributions of Restricted Assets	(2,940)	58,649	(792)	203,265
Increase in Net Assets	807,911	127,657	539,063	139,614
Net Assets - Beginning of year	55,082,496	1,834,847	54,543,433	1,695,233
Net Assets - End of year	**$ 55,890,407**	**$ 1,962,504**	**$ 55,082,496**	**$ 1,834,847**

The Notes to Financial Statements are an
Integral Part of this Statement.

Berger Health System

Statement of Cash Flows

	Year Ended			
	December 31, 2009		December 31, 2008	
	Hospital	Component Units	Hospital	Component Units
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	$ 67,518,378	$ 6,032,970	$ 64,328,794	$ 5,864,989
Cash payments to suppliers for services and goods	(30,980,201)	(7,909,856)	(25,588,207)	(3,503,847)
Cash payments to employees and for professional services	(28,006,060)	(3,285,943)	(29,316,789)	(8,374,951)
Other operating revenue received	1,598,835	1,223,895	1,538,137	1,017,546
Net cash provided by (used in) operating activities	10,130,952	(3,938,934)	10,961,935	(4,996,263)
Cash Flows from Investing Activities				
Cash received from investments	12,526,309	(157,806)	24,782,530	(340,782)
Cash paid for investments	(9,885,095)	-	(29,105,064)	-
Interest income and other	(87,791)	44,358	778,998	11,494
Net cash provided by (used in) investing activities	2,553,423	(113,448)	(3,543,536)	(329,288)
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of debt obligations	-	-	1,375,000	-
Purchase of capital assets	(3,169,249)	-	(1,716,034)	(47,591)
Repayment of long-term debt	(2,584,113)	-	(2,585,947)	-
Other capital-related contributions	(2,940)	58,649	(792)	203,265
Contributions (to) from component units	(4,024,172)	4,024,172	(4,772,739)	4,772,739
Cash paid for interest	(949,492)	-	(1,059,032)	-
Net cash (used in) provided by capital and related financing activities	(10,729,966)	4,082,799	(8,759,544)	4,928,413
Net Increase (Decrease) in Cash and Cash Equivalents	1,954,409	30,417	(1,341,145)	(397,138)
Cash and Cash Equivalents - Beginning of year	1,737,262	214,429	3,078,407	611,567
Cash and Cash Equivalents - End of year	**$ 3,691,671**	**$ 244,846**	**$ 1,737,262**	**$ 214,429**

For the Hospital, cash and cash equivalents is comprised of cash and cash equivalents and restricted cash and cash equivalents in the amounts of $3,601,671 and $90,000, respectively, in 2009 and $618,921 and $1,118,341, respectively, in 2008.

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

	Year Ended			
	December 31, 2009		December 31, 2008	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	$ 5,864,307	$ (3,999,501)	$ 5,572,401	$ (4,847,884)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	5,456,646	36,811	5,559,195	35,639
Provision for bad debts	4,024,714	218,738	4,524,363	572,337
Changes in assets and liabilities:				
Patient accounts receivable	(4,477,271)	(170,407)	(4,846,448)	(542,228)
Inventories and other assets	155,499	36,559	(655,565)	18,781
Accounts payable and accrued expenses	(970,974)	(61,134)	543,412	(232,908)
Estimated third-party settlements	78,031	-	264,577	-
Net cash provided by (used in) operating activities	**$ 10,130,952**	**$ (3,938,934)**	**$10,961,935**	**$ (4,996,263)**

Berger Health System

Component Units - Combining Balance Sheet
December 31, 2009

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	$ (101,254)	$ 18,462	$ 327,638	$ 244,846
Short-term investments	-	-	715,073	715,073
Net patient accounts receivable	595,475	88,563	-	684,038
Prepaid expenses and other	93,179	6,849	40,324	140,352
Total current assets	587,400	113,874	1,083,035	1,784,309
Long-term Investments	185,856	-	438,280	624,136
Property and Equipment - Net	143,226	-	385,967	529,193
Total assets	**$ 916,482**	**$ 113,874**	**$ 1,907,282**	**$ 2,937,638**
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	$ 64,968	$ 21,075	$ 32,286	$ 118,329
Accrued liabilities	522,973	81,152	8,558	612,683
Total current liabilities	587,941	102,227	40,844	731,012
Other Liabilities - Accrued compensated absences	190,600	50,822	2,700	244,122
Total liabilities	778,541	153,049	43,544	975,134
Net Assets (Deficit)				
Invested in capital assets	143,226	-	385,967	529,193
Restricted - Expendable for capital improvements	-	-	901,811	901,811
Unrestricted	(5,285)	(39,175)	575,960	531,500
Total net assets (deficit)	137,941	(39,175)	1,863,738	1,962,504
Total liabilities and net assets (deficit)	**$ 916,482**	**$ 113,874**	**$ 1,907,282**	**$ 2,937,638**

The Notes to Financial Statements are an Integral Part of this Statement.

Component Units - Combining Balance Sheet
December 31, 2008

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	$ 46,659	$ 12,007	$ 155,763	$ 214,429
Short-term investments	-	-	582,272	582,272
Net patient accounts receivable	631,728	100,640	-	732,368
Prepaid expenses and other	123,398	9,655	43,858	176,911
Total current assets	801,785	122,302	781,893	1,705,980
Long-term Investments	157,226	-	441,905	599,131
Property and Equipment - Net	180,037	-	385,967	566,004
Total assets	**$ 1,139,048**	**$ 122,302**	**$ 1,609,765**	**$ 2,871,115**
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	$ 59,022	$ 25,809	$ 51,766	$ 136,597
Accrued liabilities and other	526,970	107,720	15,125	649,815
Total current liabilities	585,992	133,529	66,891	786,412
Other Liabilities - Accrued compensated absences	180,996	52,455	16,405	249,856
Total liabilities	766,988	185,984	83,296	1,036,268
Net Assets (Deficit)				
Invested in capital assets	180,037	-	385,967	566,004
Restricted - Expendable for capital acquisitions	-	-	843,162	843,162
Unrestricted	192,023	(63,682)	297,340	425,681
Total net assets (deficit)	372,060	(63,682)	1,526,469	1,834,847
Total liabilities and net assets (deficit)	**$ 1,139,048**	**$ 122,302**	**$ 1,609,765**	**$ 2,871,115**

The Notes to Financial Statements are an Integral Part of this Statement.

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)
Year Ended December 31, 2009

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	$ 5,025,241	$ 959,399	$ -	$ 5,984,640
Other	392,529	410,035	421,329	1,223,893
Total operating revenues	5,417,770	1,369,434	421,329	7,208,533
Operating Expenses				
Salaries and wages	5,482,022	1,153,967	160,155	6,796,144
Employee benefits and payroll taxes	741,456	317,067	12,323	1,070,846
Operating supplies and other	1,561,314	96,104	39,887	1,697,305
Professional services and consultant fees	4,925	-	-	4,925
Purchased services	1,071,612	-	178,054	1,249,666
Insurance	352,337	-	-	352,337
Depreciation and amortization	36,811	-	-	36,811
Total operating expenses	9,250,477	1,567,138	390,419	11,208,034
Operating (Loss) Income	(3,832,707)	(197,704)	30,910	(3,999,501)
Other Income - Interest income	-	25	44,312	44,337
Excess of Revenue (Under) Over Expenses	(3,832,707)	(197,679)	75,222	(3,955,164)
Transfer from Affiliate	3,598,588	222,186	203,398	4,024,172
Contributions of Restricted Assets	-	-	58,649	58,649
(Decrease) Increase in Net Assets	(234,119)	24,507	337,269	127,657
Net Assets (Deficit) - Beginning of year	372,060	(63,682)	1,526,469	1,834,847
Net Assets (Deficit) - End of year	**$ 137,941**	**$ (39,175)**	**$ 1,863,738**	**$ 1,962,504**

The Notes to Financial Statements are an Integral Part of this Statement.

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)
Year Ended December 31, 2008

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	$ 4,878,896	$ 955,984	$ -	$ 5,834,880
Other	212,272	554,355	250,919	1,017,546
Total operating revenues	5,091,168	1,510,339	250,919	6,852,426
Operating Expenses				
Salaries and wages	5,627,560	1,303,497	130,777	7,061,834
Employee benefits and payroll taxes	865,307	314,482	14,779	1,194,568
Operating supplies and other	1,588,201	125,039	22,305	1,735,545
Professional services and consultant fees	388	-	-	388
Purchased services	1,115,853	-	188,681	1,304,534
Insurance	367,802	-	-	367,802
Depreciation and amortization	35,639	-	-	35,639
Total operating expenses	9,600,750	1,743,018	356,542	11,700,310
Operating Loss	(4,509,582)	(232,679)	(105,623)	(4,847,884)
Other Income - Interest income	-	2,261	9,233	11,494
Excess of Expenses Over Revenue	(4,509,582)	(230,418)	(96,390)	(4,836,390)
Transfer from Affiliate	4,430,791	134,799	207,149	4,772,739
Contributions of Restricted Assets	-	-	203,265	203,265
(Decrease) Increase in Net Assets	(78,791)	(95,619)	314,024	139,614
Net Assets - Beginning of year	450,851	31,937	1,212,445	1,695,233
Net Assets (Deficit) - End of year	**$ 372,060**	**$ (63,682)**	**$ 1,526,469**	**$ 1,834,847**

The Notes to Financial Statements are an Integral Part of this Statement.

Note 1 - Nature of Business and Significant Accounting Policies

Organization - Berger Health System, a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital and related entities operated by a board of governors pursuant to an agreement between the City of Circleville, Ohio and Pickaway County. The City of Circleville is the holder of legal title to the System. Members of the board of governors are appointed by the board of county commissioners and the mayor of the city (four each) with the consent of City Council. The mayor of the City of Circleville, by virtue of his or her position, is the chairperson of the board of governors. The Hospital is considered a political subdivision of a state and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code.

The accompanying basic financial statements include the accounts of Berger Hospital (the "Hospital"), Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation (collectively, the "System"). Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation are collectively the “component units” of the Hospital.

Pickaway Health Services (PHS) provides healthcare and physician services in the geographic area served by the Hospital. PHS, which operates exclusively for the benefit and support of the System, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and also qualifies as a public charity under Section 509 of the IRC. PHS received its 501(c)(3) status from the IRS on February 28, 1996.

Pickaway Professional Services (PPS) provides anesthesia care and related professional services in the geographic area served by the Hospital. It was registered by the State of Ohio on March 14, 2002.

During 2004, the System created Berger Health Foundation (the "Foundation"). The purpose of the Foundation is to support the System and community programs to improve the health and well-being of the people served by the System. The Foundation received its 501(c)(3) status from the IRS on February 13, 2004.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Enterprise Fund Accounting - The System uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, as amended, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

Restricted Cash and Cash Equivalents - Restricted cash and cash equivalents include assets designated for future debt payments or purchase of equipment under capital lease obligations.

Investments - Investments include certificates of deposit, money market accounts, and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other income when earned

Patient Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or market, determined on a first-in, first-out basis or market.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Capital Assets - Property and equipment are stated at cost or, if donated, at fair value at the date of receipt. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives (primarily 3 to 40 years) of the assets. Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences - Paid time off is charged to operations when earned. Unused and earned benefits are classified as a long-term liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the System may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

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

Classification of Net Assets - Net assets of the System are classified in three components. 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 borrowings used to finance the purchase or construction of those assets. 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 System, including amounts deposited with trustees as required by revenue note indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets - net of related debt or restricted.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Patient Service Revenue - The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2009. The System is unable to determine if it will be audited and if so, the extent of the liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment claims liability for the System at a future date.

Contributions - The System reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

Operating Income (Loss) - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income (loss).

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Charity care provided, based on charges at established rates, was approximately $6,558,000 and $6,089,000 in 2009 and 2008, respectively.

Pension Plan - Substantially all of the System's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The System funds pension costs accrued, based on contribution rates determined by OPERS.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 27, 2010, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Chapter 135 of the Ohio Uniform Depositor Act authorizes local and governmental units to make deposits in any national bank located in the state subject to inspection by the superintendent of financial institutions which are eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the State of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer, or governing board investing in these instruments.

The System has designated four banks for the deposit of its funds. An investment policy has been filed with the auditor of state on behalf of the Hospital. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, certificates of deposit, and the Ohio subdivision's fund (STAR Ohio).

Statutes require the classification of funds held by the System into three categories:

Note 2 - Deposits and Investments (Continued)

Active Funds - Active funds are those funds required to be kept in a "cash" or "near cash" status for immediate use by the System. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive Funds - Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Funds - Interim funds are those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio law permits interim funds to be invested or deposited in the following securities:

1. Bonds, notes, or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, note debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

Protection of the System's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

Note 2 - Deposits and Investments (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the System, and must be purchased with the expectation that it will be held to maturity.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. The System had approximately $9,582,000 and $8,374,000 as of December 31, 2009 and 2008, respectively, of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk. At year end, the following approximates the investment securities that were collateralized, with securities held by the counterparty or by its trust department or agent:

Type of Investment	Carrying Value	How Held
December 31, 2009:		
U.S. Agency Bonds	$ 22,596,000	Counterparty
STAR Ohio	257,000	Hospital's name
December 31, 2008:		
U.S. Agency Bonds	22,501,000	Counterparty
STAR Ohio	250,000	Hospital's name

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System does not have an investment policy that addresses interest rate risk. At year end, the average maturities of investments are as follows:

Investment		Fair Value	Weighted Average Maturity
December 31, 2009:			
U.S. Agency Bonds	$	22,596,000	0.34 years
STAR Ohio		257,000	0.00 years
December 31, 2008:			
U.S. Agency Bonds		22,501,000	0.52 years
STAR Ohio		250,000	0.00 years

Credit Risk - The System does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment		Fair Value	Rating	Rating Organization
December 31, 2009:				
U.S. Agency Bonds	$	22,596,000	AAA	Standard & Poor's
STAR Ohio		257,000	AAA	Standard & Poor's
December 31, 2008:				
U.S. Agency Bonds		22,501,000	AAA	Standard & Poor's
STAR Ohio		250,000	AAA	Standard & Poor's

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	Hospital	
	2009	2008
Patient accounts receivable	$ 16,123,964	$ 15,781,407
Less allowance for uncollectible accounts	(2,335,000)	(2,525,000)
Less allowance for contractual adjustments	(6,180,000)	(6,100,000)
Net patient accounts receivable	$ 7,608,964	$ 7,156,407

	Component Units	
	2009	2008
Patient accounts receivable	$ 1,603,038	$ 2,788,368
Less allowance for uncollectible accounts	(236,000)	(830,000)
Less allowance for contractual adjustments	(683,000)	(1,226,000)
Net patient accounts receivable	$ 684,038	$ 732,368

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percentage	
	2009	2008
Medicare	30	31
Medicaid	15	14
Commercial insurance and HMOs	41	40
Self-pay	14	15
Total	100	100

Note 4 - Capital Assets

Cost of capital assets and related depreciable lives for the Hospital for December 31, 2009 are summarized below:

	2008	Additions	Transfers	Retirements	2009
Land	$ 3,210,610	$ -	$ -	$ -	$ 3,210,610
Land improvements	1,603,089	-	1,193	-	1,604,282
Buildings	35,756,953	-	11,680	-	35,768,633
Building improvements	18,031,204	292,684	640,396	-	18,964,284
Equipment	43,974,511	2,094,520	49,070	-	46,118,101
Construction in progress	346,548	782,045	(702,339)	-	426,254
Total	102,922,915	3,169,249	-	-	106,092,164
Accumulated depreciation:					
Land improvements	(1,184,737)	(194,304)	-	-	(1,379,041)
Buildings	(13,516,299)	(1,450,484)	-	-	(14,966,783)
Building improvements	(10,384,872)	(989,304)	-	-	(11,374,176)
Equipment	(33,663,258)	(2,790,730)	-	-	(36,453,988)
Total	(58,749,166)	(5,424,822)	-	-	(64,173,988)
Net carrying amount	$ 44,173,749	$ (2,255,573)	$ -	$ -	$ 41,918,176

Cost of capital assets and related depreciable lives for the Hospital for December 31, 2008 are summarized below:

	2007	Additions	Transfers	Retirements	2008
Land	$ 3,210,572	$ 38	$ -	$ -	$ 3,210,610
Land improvements	1,596,732	-	6,357	-	1,603,089
Building	35,653,783	64,179	38,991	-	35,756,953
Building improvements	17,778,370	244,651	22,644	(14,461)	18,031,204
Equipment	42,861,315	1,172,809	8,114	(67,727)	43,974,511
Construction in progress	106,109	316,545	(76,106)	-	346,548
Total	101,206,881	1,798,222	-	(82,188)	102,922,915
Accumulated depreciation:					
Land improvements	(1,090,618)	(94,119)	-	-	(1,184,737)
Buildings	(12,139,537)	(1,376,762)	-	-	(13,516,299)
Building improvements	(9,432,892)	(937,519)	-	(14,461)	(10,384,872)
Equipment	(30,552,934)	(3,042,597)	-	(67,727)	(33,663,258)
Total	(53,215,981)	(5,450,997)	-	(82,188)	(58,749,166)
Net carrying amount	$ 47,990,900	$ (3,652,775)	$ -	$ (164,376)	$ 44,173,749

Capital asset activity for the component units for the years ended December 31, 2009 and 2008 included approximately $0 and $47,600 of additions and $36,800 and $35,600 of depreciation, respectively.

Depreciation and amortization expense on capital assets (excluding bond issue costs) for the Hospital and component units for the years ended December 31, 2009 and 2008 totaled approximately $5,462,000 and $5,595,000, respectively.

Note 5 - Long-term Liabilities

Long-term liability activity for the year ended December 31, 2009 for both the Hospital and component units was as follows:

	2008	Current Year Additions	Current Year Reductions	2009	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 3.8 percent to 5.4 percent, payable in monthly installments ranging from $13,340 to $13,838, including interest, maturing in 2017	$ 1,131,668	$ -	$ (100,417)	$ 1,031,251	$ 105,833
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing in September 2013)	8,000,000	-	-	8,000,000	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007A (maturing in September 2014)	8,630,000	-	(1,056,000)	7,574,000	1,056,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing in September 2012)	2,495,000	-	(664,000)	1,831,000	664,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2008A (maturing in December 2014)	1,239,000	-	(136,000)	1,103,000	136,000
Chase equipment lease collateralized by the equipment purchased (maturing in August 2010)	2,058,442	-	(627,696)	1,430,746	1,430,746
Total long-term debt	23,554,110	-	(2,584,113)	20,969,997	3,392,579
Compensated absences	1,507,741	2,734,401	(2,697,303)	1,544,839	778,000
Total noncurrent liabilities	$ 25,061,851	$ 2,734,401	$ (5,281,416)	$ 22,514,836	$ 4,170,579

Long-term liability activity for the year ended December 31, 2008 for both the Hospital and component units was as follows:

	2007	Current Year Additions	Current Year Reductions	2008	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 5.3 percent to 5.4 percent, payable in monthly installments ranging from $13,340 to $13,838, including interest, maturing in 2017	$ 1,227,500	$ -	$ (95,832)	$ 1,131,668	$ 100,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing in September 2008)	27,857	-	(27,857)	-	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing in September 2013)	8,000,000	-	-	8,000,000	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007A (maturing in September 2014)	9,686,000	-	(1,056,000)	8,630,000	1,056,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing in September 2012)	3,159,000	-	(664,000)	2,495,000	664,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2008A (maturing in December 2014)	-	1,375,000	(136,000)	1,239,000	136,000
Chase equipment lease collateralized by the equipment purchased (maturing in August 2010)	2,664,700	-	(606,258)	2,058,442	627,696
Total long-term debt	24,765,057	1,375,000	(2,585,947)	23,554,110	2,584,113
Compensated absences	1,355,546	2,778,643	(2,626,448)	1,507,741	754,000
Total noncurrent liabilities	$ 26,120,603	$ 4,153,643	$ (5,212,395)	$ 25,061,851	$ 3,338,113

Note 5 - Long-term Liabilities (Continued)

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio (the "City") in which the City issued $6,500,000 of hospital facilities revenue bonds (Series 2003A Bonds). The proceeds were used to retire prior obligations. The Series 2003A Bonds mature in quarterly principal installments ranging from $495,000 in March 2004 to $9,000 in September 2008 at a rate of 2.80 percent.

On September 1, 2003, the System entered into a financing agreement with the City, in which the City issued $10,000,000 of hospital facilities revenue bonds (Series 2003B Bonds). The proceeds were used to construct, renovate, and equip the emergency room, surgery center, and administrative offices, as well as construct a medical office building and other structures. During 2006, the System refinanced the Series 2003B Bonds to change the maturity of the instrument. The System will pay interest-only payments at a rate of 4.10 percent until December 2011, at which time a lump-sum payment of $3,500,000 will be due followed by quarterly principal installments ranging from $167,000 in March 2012 to $3,500,000 in September 2013, plus interest.

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued $9,950,000 of hospital facilities revenue bonds (Series 2007A Bonds). The proceeds were used to retire prior obligations and to fund operations. The Series 2007A Bonds mature in quarterly principal installments ranging from $264,000 in December 2007 to $2,558,000 in September 2014 at a rate of 3.85 percent.

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued $3,325,000 of hospital facilities revenue bonds (Series 2007B Bonds). The proceeds were used to retire prior obligations and to fund operations. The Series 2007B Bonds mature in quarterly principal installments ranging from $166,000 in December 2007 to $171,000 in September 2012 at a rate of 5.95 percent.

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued $1,375,000 of hospital facilities revenue bonds (Series 2008A Bonds). The proceeds were used to fund operations. The Series 2008A Bonds mature in quarterly principal installments of $34,000 from March 2008 to December 2014 at a rate of 3.85 percent.

In conjunction with the Series 2003A, Series 2003B, Series 2007A, Series 2007B, and Series 2008A Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. Management believes it is in compliance with all such financial covenants.

The Series 2003A, Series 2003B, Series 2007A, Series 2007B, and 2008A Bonds are collateralized by System revenues and receipts, and unexpended bond proceeds and income from bond fund-related investments.

Note 5 - Long-term Liabilities (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2009:

Years Ending	Long-term Debt		Capital Lease Obligations	
December 31	Principal	Interest	Principal	Interest
2010	$ 1,961,833	$ 799,534	$ 1,430,746	$ 28,840
2011	5,471,417	703,470	-	-
2012	2,482,085	459,236	-	-
2012	5,151,165	329,186	-	-
2013	3,621,417	163,682	-	-
2014-2018	851,334	50,366	-	-
Total payments	$ 19,539,251	$ 2,505,474	$ 1,430,746	$ 28,840

Note 6 - Risk Management

Based on the nature of its operations, the System is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The System and the component units are insured against medical malpractice claims under claims-made based policies, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policies, the System and the component units bear the risk of the ultimate costs of any individual claims exceeding $1,000,000 or aggregate claims exceeding $3,000,000 for claims asserted in the policy year. In addition, the System has an umbrella policy with additional coverage limits.

Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term but reported subsequently will be uninsured.

The System is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the System's cost for such claims for the year and it has been charged to operations as a current expense.

The System is exposed to various risks of loss related to property and general losses, as well as excess coverage for medical benefits provided to employees. The System has purchased commercial insurance coverage for these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Note 7 - Defined Benefit Pension Plan

Plan Description - 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, and survivor benefits as well as postemployment healthcare coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO) and are actuarially determined. The 2009 member contribution rate for members of local government units was 10.0 percent of their annual covered salary. The 2009, 2008, and 2007 employer contribution rate for local government units was 14.00 percent, 14.00 percent, and 13.85 percent of covered payroll, respectively. The Hospital's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were approximately \$3,151,000, \$3,050,000, and \$2,789,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Note 7 - Defined Benefit Pension Plan (Continued)

Postretirement Benefits - In order to qualify for postemployment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2009, 2008, and 2007, state and local employers contributed at a rate of 14.00 percent, 14.00 percent, and 13.85 percent, respectively, of covered payroll. The portion of employer contributions allocated to health care was 7.00 percent for January 1 through March 31, 2009 and 5.5 percent for April 1 through December 31, 2009 for all employers, 7.00 percent for all of 2008 and 6.00 percent was used for January 1 through June 30, 2007 and July 1 through December 31, 2007, respectively. The portion of the employer's contribution used to fund postemployment benefits for 2009, 2008, and 2007 was $1,322,000, $1,525,000, and $1,108,000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS.

The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor. The investment assumption rate for 2008 was 6.50 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.30 percent. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 3 percent for the next six years. In subsequent years (seven and beyond), healthcare costs were assumed to increase at 4 percent (the projected wage inflation rate). These assumptions and calculations are based on the System's latest actuarial review performed as of December 31, 2008.

Note 7 - Defined Benefit Pension Plan (Continued)

The Traditional Pension and Combined Plans had 357,584 active contributing participants as of December 31, 2009. The number of active contributing participants for both plans used in the December 31, 2008 actuarial valuation was 356,388. As of December 31, 2008, the actuarial value of the retirement system's net assets available for OPEB was $10.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.6 billion and $18.9 billion, respectively.

Health Care Plan - The Health Care Preservation (HCPP), adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007, and 2008, which allowed additional funds to be allocated to the healthcare plan.

Note 8 - Cost Report Settlements

Approximately 59 percent of the System's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

- **Medicare** - Inpatient, acute-care services and rehabilitation services rendered to Medicare 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. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on prospectively determined rates or an established fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on a fee-for-service methodology.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Note 8 - Cost Report Settlements (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 9 - Self-insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over $100,000 per employee. Claims, charged to operations when incurred, were approximately $4,600,000 and $4,500,000 for the years ended December 31, 2009 and 2008, respectively.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

To the Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System as of and for the year December 31, 2009 and have issued our report thereon dated April 27, 2010. 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 Berger Health System'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 Berger Health System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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.

To the Board of Governors
Berger Health System

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berger Health System'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 Berger Health System in a separate letter dated April 27, 2010.

This report is intended solely for the information and use of the auditor of the State of Ohio, the board of governors of Berger Health System, management, and others within the System and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 27, 2010

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

Comments and Recommendations

April 27, 2010

To the Board of Directors and
Finance Committee
Berger Health System

Dear Board Members and Committee:

We have audited the financial statements of Berger Health System (the "System") for the year ended December 31, 2009 and have issued our report thereon dated April 27, 2010. During our audit, we were observant for opportunities to provide helpful recommendations. Those recommendations are presented in the following exhibits:

	Exhibit
Information Technology General Controls - *Best Practice Suggestion*	A
Covering Employee Absences - *Best Practice Suggestion*	B
Changes to Acquisition and Merger Accounting - *Informational*	C
Proposed Changes to Lease Accounting - *Informational*	D

If you would like any additional information regarding these matters, we would be pleased to provide any requested information.

Very truly yours,

Plante & Moran, PLLC

Jordan F. Pace, CPA
Partner

William D. Sharp, CPA
Senior Manager

Observation	Recommendation
Exhibit A - Information Technology General Controls - *Best Practice Suggestion*	
While performing our audit procedures for information technology general controls over password complexity, we noted the System could strengthen the length, complexity, and change in frequency of user passwords.	We recommend the System adopt a policy with respect to required minimum length, complexity, and change in frequency related to user passwords.
Exhibit B - Cross Training of Staff - *Best Practice Suggestion*	
During our interim procedures, we selected to test the cash reconciliation for the operating cash account and noted that the resulting journal entries related to the reconciliation were carried as reconciling items longer than normal.	We recommend the accounting department establish and train other appropriate individuals to perform tasks of other accounting personnel to ensure that procedures and controls are completed timely. This will ensure the procedures and controls remain in place and any segment of the reconciliation and control function will not be dependent on only one employee.
Exhibit C - Changes to Acquisition and Merger Accounting - *Informational*	
In May 2009, the FASB issued a new accounting standard related to not-for-profit entities merger and acquisitions accounting. In addition, the FASB also decided that those not-for-profit organizations that recognize acquired goodwill should apply the provisions of ASC 350 for subsequent testing and impairment. Additional guidance will be given for acquisitions of an organization that is predominately supported by contributions and investment returns.	Acquisition and Mergers: The new standard fundamentally changes the accounting for combinations entered into by not-for-profit entities (NPOs). Certain transactions that qualify as mergers will receive carryover accounting treatment. All other combination transactions will use acquisition (fair value) accounting. The new accounting standard should be applied prospectively to mergers occurring on or after December 15, 2009, and to acquisitions occurring in annual periods beginning on or after December 15, 2009. Early application is prohibited. Goodwill: These new rules are expected to be effective in fiscal years beginning after December 15, 2009.

Observation	Recommendation

Exhibit D - Potential Changes to Lease Accounting - *Informational*
 	
On March 19, 2009, the Financial Accounting Standards Board (FASB) issued a discussion paper titled, *Leases: Preliminary Views*. This discussion paper is the first step before creating a new standard.
	Some of the provisions contained in the proposed new standard include the following:
	
	• A significant change to lease accounting, including the elimination of operating lease accounting
	• A lessee would treat all leases in a manner similar to how capital leases are accounted for today, recorded as follows:
	    o An asset representing the organization's right to use the item for the lease term
	    o A liability for the organization's obligation to make rental payments
	• There will not be a period where all new leases are treated as capital and some old leases are still operating. Leases in effect as of the date of transition would have to be accounted for based on the new standard in order to provide comparable statements.
	• The proposal would require the lessee to reassess the value of the lease based on changing facts and circumstances, including re-evaluating the lease term, contingent rentals, residual value guarantees, and the lease obligation.
	
	The final standard is expected to be issued by 2011.
	
	Due to the change in accounting principle that will attempt to put all leases in the same category for accounting treatment, we encourage the System to make leasing decisions based on the most advantageous economic terms, rather than the accounting treatment.

Mary Taylor, CPA
Auditor of State

BERGER HEALTH SYSTEM

PICKAWAY 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 17, 2010

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us