

BERGER HEALTH SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016

CPAs / ADVISORS





Dave Yost • Auditor of State

Board of Governors
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 Blue & Co., LLC, for the audit period January 1, 2017 through December 31, 2017. 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.

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

Dave Yost
Auditor of State

June 19, 2018

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BERGER HEALTH SYSTEM

TABLE OF CONTENTS

DECEMBER 31, 2017 AND 2016

	Page
Report of Independent Auditors	1
Management’s Discussion and Analysis (unaudited)	i-viii
Financial Statements	
Statements of Net Position	3
Statements of Operations and Changes in Net Position	5
Statements of Cash Flows	6
Component Units - Combining Statements of Net Position.....	8
Component Units - Combining Statements of Operations and Changes in Net Position	10
Notes to Financial Statements	12
Required Supplementary Information	
Supplementary Information on GASB 68 Pension Liabilities (unaudited)	39
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By Government Auditing Standards	40

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

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") as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about the financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the System's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

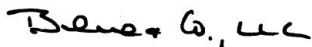
Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages i through viii and the Supplementary Information on GASB 68 Pension Liabilities on page 39 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2018 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Westerville, Ohio
June 8, 2018

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

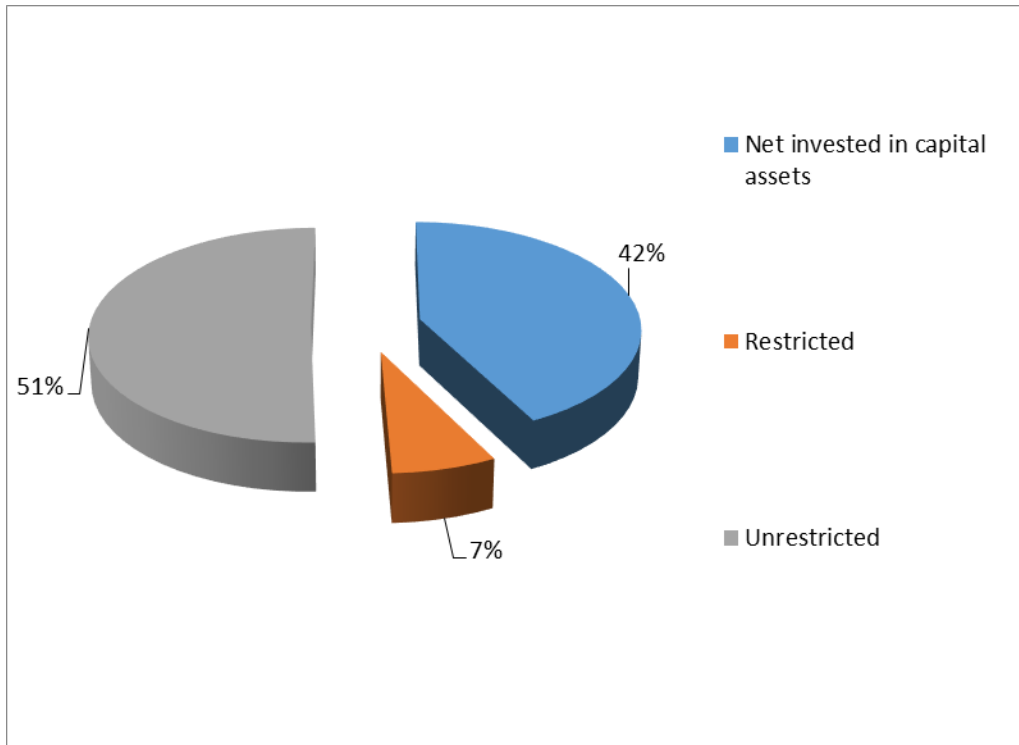
Management's discussion and analysis (MD&A) of Berger Health System (the "System") provides an overview of the financial activities for the year ended December 31, 2017. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with management's discussion and analysis. 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 Berger Health Partners (BHP), 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 Statements 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

Operating expenses of \$91.8 million exceeded operating revenues of \$89.0 million, producing an operating loss of \$2.8 million.

The following chart provides a breakdown of net position by category at December 31, 2017.



Using This Annual Report

The System's financial statements consist of three statements - a statement of net position, a statement of operations and changes in net position, and a statement of cash flows. The financial statements and related notes provide information about activities of the System, including resources held by the System but restricted by specific purpose by contributors, bond indenture, grantors or enabling legislation.

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the financial statements in the above referred format, and notes to financial statements.

The Statement of Net Position and the Statement of Operations and Changes in Net Position

One of the most important questions asked about the System's finances is, "Is the System as a whole better off or worse off as a result of the year's activities?" The statement of net position and statement of operations and changes in net position report information on the System as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the System's operating results.

These two statements report the System's net position and the changes in them. You can think of System's net position - the difference between assets and liabilities - as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, state and federal regulatory issues, condition of the buildings, and strength of the medical staff, to fully assess the overall health of the System.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

Condensed Financial Information

The following is a comparative analysis of the major components of the statements of net position of the System as of December 31, 2017, 2016 and 2015:

	December 31		
	2017	2016	2015
Assets and deferrals			
Current assets	\$ 30,668,348	\$ 40,193,268	\$ 35,673,146
Noncurrent assets	19,377,413	14,057,691	16,832,115
Capital assets	36,347,819	34,408,836	35,355,923
Deferred outflows-pension	15,035,937	10,240,653	3,762,365
	<u>101,429,517</u>	<u>98,900,448</u>	<u>91,623,549</u>
Total assets and deferrals	<u>\$ 101,429,517</u>	<u>\$ 98,900,448</u>	<u>\$ 91,623,549</u>
Liabilities and deferrals			
Current liabilities	\$ 8,293,026	\$ 8,875,860	\$ 8,241,239
Long-term liabilities	54,850,173	47,171,822	40,826,061
Deferred inflows-pension	1,050,695	822,473	354,513
	<u>64,193,894</u>	<u>56,870,155</u>	<u>49,421,813</u>
Total liabilities and deferrals	<u>\$ 64,193,894</u>	<u>\$ 56,870,155</u>	<u>\$ 49,421,813</u>
Net position			
Net invested in capital assets	\$ 15,632,819	\$ 12,713,836	\$ 12,705,923
Restricted	2,542,260	3,249,206	4,771,889
Unrestricted	19,060,544	26,067,251	24,723,924
	<u>37,235,623</u>	<u>42,030,293</u>	<u>42,201,736</u>
Total net position	<u>\$ 37,235,623</u>	<u>\$ 42,030,293</u>	<u>\$ 42,201,736</u>

Total assets and deferrals increased \$2.5 million between 2017 and 2016, driven by an increase in long-term investments and pension related items. Total liabilities and deferrals increased \$7.3 million during 2017 primarily as a result of an increase in pension liability between years.

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

Operating Results and Changes in the System's Net Position

The following is a comparative analysis of the statements of operations and changes in net position for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31		
	2017	2016	2015
Operating revenues			
Net patient service revenue	\$ 84,957,056	\$ 83,583,242	\$ 74,827,413
Other operating revenue	4,022,350	3,217,525	3,514,537
Total operating revenues	<u>88,979,406</u>	<u>86,800,767</u>	<u>78,341,950</u>
Operating expenses			
Salaries and wages	32,877,999	31,466,631	30,149,549
Employee benefits and payroll taxes	5,149,851	6,388,572	4,250,297
Pension expense	7,557,904	3,836,089	1,692,763
Supplies and other	22,393,751	21,311,564	19,783,937
Professional services and consultant fees	4,945,516	4,793,635	4,121,944
Purchased services	12,201,868	10,774,917	9,695,314
Insurance	704,802	665,794	768,894
Depreciation and amortization	4,789,977	4,596,474	4,383,173
State hospital assessment	1,138,867	1,130,057	1,135,801
Total operating expenses	<u>91,760,535</u>	<u>84,963,733</u>	<u>75,981,672</u>
Operating Income (loss)	(2,781,129)	1,837,034	2,360,278
Other income (expense)			
Interest income	137,262	151,236	91,246
Gain on sale of property	7,155	-	-
Contributions	268,987	69,275	69,109
Interest expense	(569,346)	(593,118)	(617,010)
Program support grants	(1,207,451)	(1,113,738)	(304,792)
Other expense	(1,025,581)	(537,589)	(670,201)
Total other income (expense)	<u>(2,388,974)</u>	<u>(2,023,934)</u>	<u>(1,431,648)</u>
Excess of revenue over (under) expenses	(5,170,103)	(186,900)	928,630
Contributions of restricted assets	<u>375,433</u>	<u>15,457</u>	<u>704,217</u>
Change in net position	(4,794,670)	(171,443)	1,632,847
Net position, beginning of year	42,030,293	42,201,736	56,317,394
Cumulative effect of accounting change	-	-	(15,748,505)
Net position, end of year	<u>\$ 37,235,623</u>	<u>\$ 42,030,293</u>	<u>\$ 42,201,736</u>

BERGER HEALTH SYSTEM

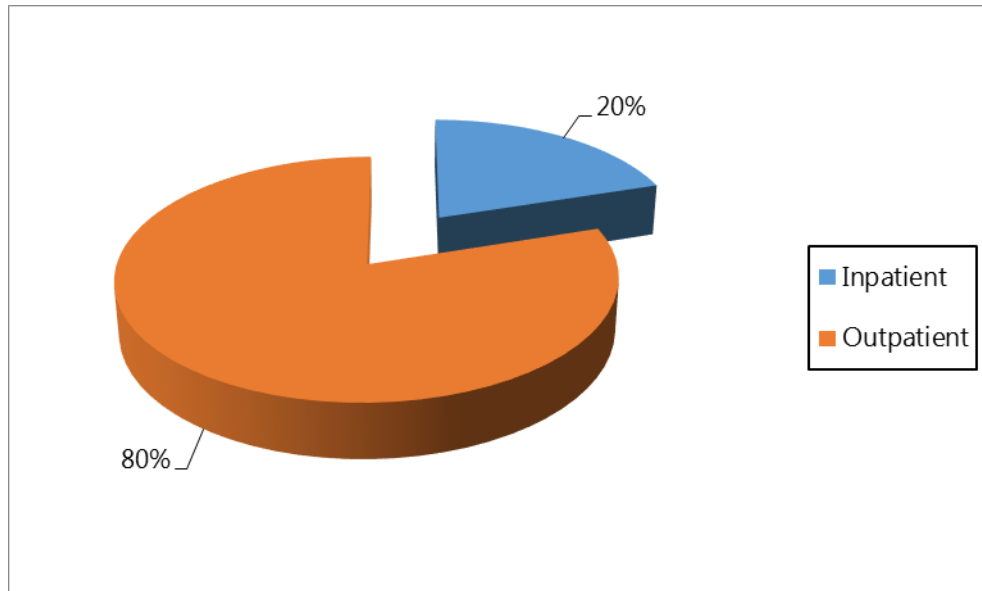
Management's Discussion and Analysis (unaudited)

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased \$1.4 million from \$83.6 million in 2016 to \$85.0 million in 2017. The increase is attributed to charge rate increases and increased admissions compared to 2016.
- The following is a graphic illustration of patient revenues by source:



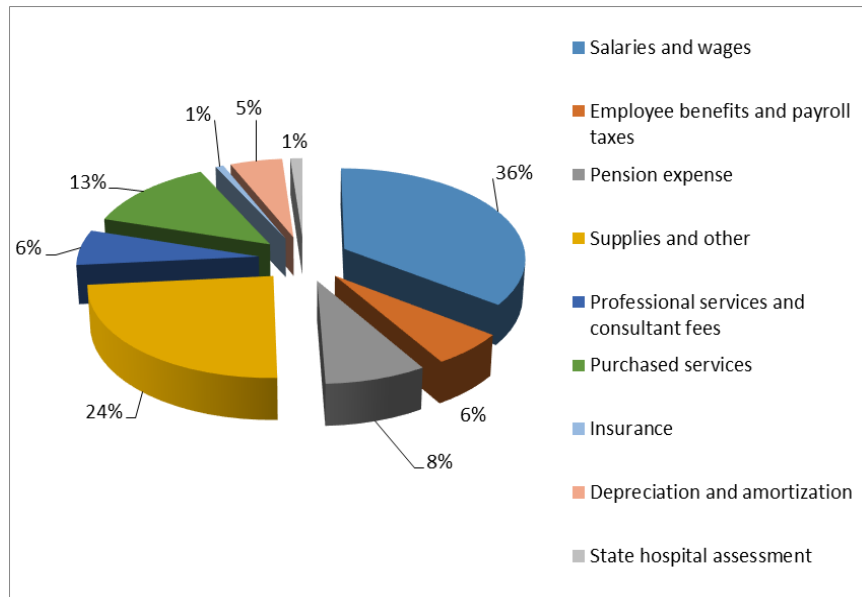
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the System. The operating expense changes were primarily the result of pension expense increasing \$3.7 million in 2017 due to a significant increase in Ohio Public Employees Retirement System (OPERS) plan pension liability. Additionally, salaries and wages expense increased \$1.4 million due to an increase in the number of full time equivalents during 2017. Purchased services increased \$1.4 million due to the addition of the medical stabilization unit, increased lab costs and increased facility management costs. Supplies and other increased \$1.1 million primarily due to increased drug costs.

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

The following is a graphic illustration of operating expenses by type:



Statement of Cash Flows

Another way to assess the financial health of the System is to look at the statement of cash flows. The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

- An entity's ability to generate future net cash flows
- The ability to meet its obligations as they come due
- The needs for external financing

	2017	2016	2015
Cash provided by (used in):			
Operating activities	\$ 8,958,710	\$ 6,563,472	\$ 6,604,522
Investing activities	(2,258,532)	(1,642,233)	(902,759)
Capital and related financing activities	(7,842,542)	(5,148,934)	(5,847,871)
Total	(1,142,364)	(227,695)	(146,108)
Cash - beginning of year	12,748,454	12,976,149	13,122,257
Cash - end of year	<u>\$ 11,606,090</u>	<u>\$ 12,748,454</u>	<u>\$ 12,976,149</u>

Net cash flows provided by operating activities increased from the prior year primarily due to increases in payments received from patients and third-party payors.

Net cash outflows used in capital and related financing activities increased from the prior year due to increases in fixed asset additions, largely attributed to construction being performed for the physical therapy clinic.

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

Capital Asset and Debt Administration

Capital Assets

At December 31, 2017, 2016, and 2015, the Hospital had \$116.2 million, \$109.8 million, and \$106.1 million invested in capital assets. Accumulated depreciation at December 31, 2017, 2016, and 2015 totaled \$80.6 million, \$75.9 million, and \$71.4 million. Net capital assets totaled \$35.6 million, \$33.9 million, and \$34.7 million in 2017, 2016, and 2015, respectively. Depreciation totaled \$4.7 million during 2017 compared to \$4.5 million in 2016 and \$4.3 million in 2015. A summary is shown below.

	2017	2016	2015
Land and land improvements	\$ 4,911,857	\$ 4,911,857	\$ 4,835,337
Buildings and fixed equipment	67,606,069	62,789,419	58,866,823
Major moveable equipment	43,086,955	41,590,396	40,007,994
Construction in progress	578,318	474,115	2,432,851
Total capital assets	116,183,199	109,765,787	106,143,005
Less accumulated depreciation	(80,570,127)	(75,905,716)	(71,417,082)
Capital assets, net	<u>\$ 35,613,072</u>	<u>\$ 33,860,071</u>	<u>\$ 34,725,923</u>

The net capital assets for the component units were approximately \$735,000, \$549,000, and \$630,000 for 2017, 2016, and 2015, respectively.

Debt

At year end, the System had \$20.7 million in long-term debt obligations outstanding compared to \$21.7 million the previous year. The table below summarizes these amounts by year.

	2017	December 31 2016	2015
Total note payable and bonds	\$ 20,715,000	\$ 21,695,000	\$ 22,650,000

More detailed information about the System's long-term liabilities is presented in the full notes to the financial statements

Economic Factors and 2018 Budget

The System's board and management considered many factors when establishing the 2018 budget. The significant items addressed during the current year were: market dynamics and competition; payment reform; consumerism; the ongoing shift from inpatient to outpatient

BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

services; the impact of federal and state legislation; and the local economy. Also considered during the 2018 budget was the System's continued strategic partnership with OhioHealth.

Included in the System's financial statements is the impact of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The System is required to recognize their proportionate share of OPERS' unfunded liability within the System's financial statements. The System's 2017 balance sheet indicates a pension liability of \$35.2 million compared to a liability of \$26.3 million in the prior year. The System's employee benefit expense was negatively impacted in 2017 by an additional \$4.3 million due to OPERS' performance. While the System's contributions to OPERS are established as a contribution rate of 14% of covered payroll, there can be significant variation in expense and balance sheet amounts between years as a result of actuarial studies conducted by OPERS. These changes and subsequent impact to the System's financial statements are not the System's obligation.

The charts below summarize our 2017 excess of revenue over (under) expenses and net position with and without the impact of GASB Statement No. 68:

	Impact in accordance with GAAP	Impact w/o GASB 68
	<hr/>	<hr/>
Operating Results		
Excess of revenue over (under) expenses	\$ (5,170,103)	\$ (896,285)
	<hr/>	<hr/>
Net Position		
Assets and deferrals	\$ 101,429,517	\$ 86,263,616
Liabilities and deferrals	64,193,894	27,988,026
Net position	37,235,623	58,275,590
Total liabilities and net position	\$ 101,429,517	\$ 86,263,616
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In summary, GASB 68 impacts can be significant and either negatively or positively impact benefit expense, liabilities and net position depending on OPERS' performance. The System's cash flows will be unaffected by these changes as long as statutory contribution rates remain unchanged.

The System's board and management remains focused on providing high quality healthcare in our community. This will be accomplished by ensuring that care remains local. We are committed to strategically investing in the System to the continued benefit of Pickaway County.

Contacting the System's Financial Officer

The 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, please contact the chief financial officer, Richard Filler, CPA, CMA at (740) 420-8089 or rich.filler@bergerhealth.com.

BERGER HEALTH SYSTEM

STATEMENTS OF NET POSITION DECEMBER 31, 2017 AND 2016

ASSETS AND DEFERRALS

	December 31, 2017		December 31, 2016	
	Hospital	Component Units	Hospital	Component Units
Current assets				
Cash and cash equivalents	\$ 9,333,675	\$ 938,198	\$ 9,684,334	\$ 980,022
Short-term investments	6,163,819	-	12,212,235	-
Net patient accounts receivable	8,972,137	640,959	10,229,904	672,825
Estimated third-party payor settlements	1,110,760	-	2,937,566	-
Prepaid expenses and other	1,569,010	427,313	1,432,141	377,375
Inventory	1,198,389	-	1,334,032	-
Current portion of pledges receivable	-	314,088	-	332,834
Total current assets	28,347,790	2,320,558	37,830,212	2,363,056
Assets whose use is limited				
Restricted cash and investments	-	1,981,124	-	2,663,123
Long-term investments	17,019,277	-	10,868,826	-
Property and equipment, net	35,613,072	734,747	33,860,071	548,765
Long-term pledges receivable, net	-	247,048	-	253,249
Other assets	-	-	156,393	-
Net pension asset	129,964	-	116,100	-
Total noncurrent assets	52,762,313	2,962,919	45,001,390	3,465,137
Deferred outflows of resources	15,035,937	-	10,240,653	-
Total assets and deferrals	\$ 96,146,040	\$ 5,283,477	\$ 93,072,255	\$ 5,828,193

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF NET POSITION DECEMBER 31, 2017 AND 2016

LIABILITIES, DEFERRALS AND NET POSITION

	December 31, 2017		December 31, 2016	
	Hospital	Component Units	Hospital	Component Units
Current liabilities				
Current portion of long-term debt	\$ 1,020,000	-	\$ 980,000	-
Accounts payable	3,110,849	518,240	3,558,383	240,393
Accrued compensation and related accruals	2,904,242	690,471	3,017,881	821,323
Accrued interest and other	49,224	-	257,880	-
Total current liabilities	7,084,315	1,208,711	7,814,144	1,061,716
Long-term debt - net of current portion	19,695,000	-	20,715,000	-
Other liabilities				
Net pension liability	35,155,173	-	26,300,429	-
Other liabilities	-	-	156,393	-
Total other liabilities	35,155,173	-	26,456,822	-
Deferred inflows of resources	1,050,695	-	822,473	-
Total liabilities and deferrals	62,985,183	1,208,711	55,808,439	1,061,716
Net Position				
Net invested in capital assets	14,898,072	734,747	12,165,071	548,765
Restricted	-	2,542,260	-	3,249,206
Unrestricted	18,262,785	797,759	25,098,745	968,506
Total net position	33,160,857	4,074,766	37,263,816	4,766,477
Total liabilities, deferrals and net position	\$ 96,146,040	\$ 5,283,477	\$ 93,072,255	\$ 5,828,193

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31, 2017		December 31, 2016	
	Hospital	Component Units	Hospital	Component Units
Operating revenues				
Net patient service revenue	\$ 77,262,445	\$ 7,694,611	\$ 76,213,333	\$ 7,369,909
Other operating revenue	<u>2,472,769</u>	<u>1,549,581</u>	<u>2,440,883</u>	<u>776,642</u>
Total operating revenues	79,735,214	9,244,192	78,654,216	8,146,551
Operating expenses				
Salaries and wages	24,244,605	8,633,394	23,114,319	8,352,312
Employee benefits and payroll taxes	11,189,036	1,518,719	8,712,681	1,511,980
Operating supplies and other	19,823,985	2,569,766	18,941,437	2,370,127
Professional services and consultant fees	4,945,516	-	4,793,635	-
Purchased services	10,282,594	1,919,274	8,982,509	1,792,408
Insurance	515,312	189,490	394,718	271,076
Depreciation and amortization	4,705,571	84,406	4,488,634	107,840
State hospital assessment	<u>1,138,867</u>	<u>-</u>	<u>1,130,057</u>	<u>-</u>
Total operating expenses	76,845,486	14,915,049	70,557,990	14,405,743
Operating income (loss)	2,889,728	(5,670,857)	8,096,226	(6,259,192)
Other income (expenses)				
Interest income	137,262	-	151,236	-
Gain on sale of property	7,155	-	-	-
Contributions	268,987	-	69,275	-
Interest expense	(569,346)	-	(593,118)	-
Other expense	<u>(717,885)</u>	<u>(1,515,147)</u>	<u>(576,385)</u>	<u>(1,074,942)</u>
Total other expenses	(873,827)	(1,515,147)	(948,992)	(1,074,942)
Contribution (to) from component units	(6,118,860)	6,118,860	(6,385,499)	6,385,499
Excess of revenue over (under) expenses	<u>(4,102,959)</u>	<u>(1,067,144)</u>	<u>761,735</u>	<u>(948,635)</u>
Contributions of restricted assets	-	375,433	-	15,457
Change in net position	<u>(4,102,959)</u>	<u>(691,711)</u>	<u>761,735</u>	<u>(933,178)</u>
Net position - beginning of year	37,263,816	4,766,477	36,502,081	5,699,655
Net position - end of year	<u>\$ 33,160,857</u>	<u>\$ 4,074,766</u>	<u>\$ 37,263,816</u>	<u>\$ 4,766,477</u>

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017		2016	
	Hospital	Component Units	Hospital	Component Units
Operating activities				
Cash received from patients and third-party payors	\$ 80,347,018	\$ 7,726,477	\$ 72,893,206	\$ 7,319,597
Cash payments to suppliers for services and goods	(37,155,034)	(4,450,621)	(33,641,938)	(4,502,289)
Cash payments to employees for salaries, wages and benefits	(31,273,462)	(10,282,965)	(29,678,298)	(9,706,947)
Other operating revenue	2,472,769	1,574,528	2,440,883	1,439,258
Net cash flows from operating activities	14,391,291	(5,432,581)	12,013,853	(5,450,381)
Investing activities				
Proceeds from investments	12,150,579	8,404	15,311,033	23,419
Cash paid for investments	(12,252,614)	(76,286)	(15,430,000)	(46,594)
Interest income and other	(573,468)	(1,515,147)	(425,149)	(1,074,942)
Net cash flows from investing activities	(675,503)	(1,583,029)	(544,116)	(1,098,117)
Cash flows from noncapital financing activities				
Contributions to component units	(6,118,860)	6,118,860	(6,385,499)	6,385,499
Net cash from noncapital financing activities	(6,118,860)	6,118,860	(6,385,499)	6,385,499
Capital and related financing activities				
Acquisition and construction of capital assets	(6,502,412)	(270,388)	(3,622,782)	(26,605)
Proceeds from disposal of capital assets	50,995	-	-	-
Gain on disposal of capital assets	(7,155)	-	-	-
Grants and contributions	268,987	375,433	69,275	15,457
Interest paid on long-term debt	(778,002)	-	(629,279)	-
Principal payments on long-term debt	(980,000)	-	(955,000)	-
Net cash flows from capital and related financing activities	(7,947,587)	105,045	(5,137,786)	(11,148)
Change in cash and cash equivalents				
Cash and cash equivalents - beginning of year	9,684,334	3,064,120	9,737,882	3,238,267
Cash and cash equivalents- end of year	<u>\$ 9,333,675</u>	<u>\$ 2,272,415</u>	<u>\$ 9,684,334</u>	<u>\$ 3,064,120</u>
Balance sheet classification of cash				
Cash and cash equivalents	\$ 9,333,675	\$ 938,198	\$ 9,684,334	\$ 980,022
Restricted cash and cash equivalents	-	1,334,217	-	2,084,098
	<u>\$ 9,333,675</u>	<u>\$ 2,272,415</u>	<u>\$ 9,684,334</u>	<u>\$ 3,064,120</u>

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 2,889,728	\$ (5,670,857)	\$ 8,096,226	\$ (6,259,192)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation and amortization	4,705,571	84,406	4,488,634	107,840
Provision for bad debt	6,593,081	224,770	2,908,492	89,051
Pension cost	4,273,818	-	1,703,527	-
Changes in assets and liabilities				
Patient accounts receivable	(5,335,314)	(192,904)	(5,242,562)	(139,363)
Other assets	155,167	(24,991)	414,697	736,397
Accounts payable and accrued liabilities	(561,173)	146,995	630,896	14,886
Other liabilities	(156,393)	-	-	-
Estimated third party settlements	1,826,806	-	(986,057)	-
Net cash flows from operating activities	\$ 14,391,291	\$ (5,432,581)	\$ 12,013,853	\$ (5,450,381)

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2017

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Current assets				
Cash and cash equivalents	\$ 14,199	\$ 9,131	\$ 914,868	\$ 938,198
Net patient accounts receivable	640,959	-	-	640,959
Prepaid expenses and other	343,839	-	83,474	427,313
Current portion of pledges receivable	-	-	314,088	314,088
Total current assets	998,997	9,131	1,312,430	2,320,558
Assets whose use is limited				
Restricted cash and investments	-	-	1,981,124	1,981,124
Property and equipment, net	348,780	-	385,967	734,747
Long-term pledges receivable, net	-	-	247,048	247,048
Total assets	<u>\$ 1,347,777</u>	<u>\$ 9,131</u>	<u>\$ 3,926,569</u>	<u>\$ 5,283,477</u>
Current liabilities				
Accounts payable	\$ 278,757	-	\$ 239,483	\$ 518,240
Accrued compensation and related accruals	678,663	-	11,808	690,471
Total current liabilities	957,420	-	251,291	1,208,711
Total liabilities	957,420	-	251,291	1,208,711
Net position				
Net invested in capital assets	348,780	-	385,967	734,747
Restricted	-	-	2,542,260	2,542,260
Unrestricted	41,577	9,131	747,051	797,759
Total net position	390,357	9,131	3,675,278	4,074,766
Total liabilities and net position	<u>\$ 1,347,777</u>	<u>\$ 9,131</u>	<u>\$ 3,926,569</u>	<u>\$ 5,283,477</u>

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2016

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Current assets				
Cash and cash equivalents	\$ -	\$ 10,776	\$ 969,246	\$ 980,022
Net patient accounts receivable	672,825	-	-	672,825
Prepaid expenses and other	330,800	-	46,575	377,375
Current portion of pledges receivable	-	-	332,834	332,834
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	1,003,625	10,776	1,348,655	2,363,056
Assets whose use is limited				
Restricted cash and investments	-	-	2,663,123	2,663,123
Property and equipment, net	162,798	-	385,967	548,765
Long-term pledges receivable, net	-	-	253,249	253,249
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,166,423</u>	<u>\$ 10,776</u>	<u>\$ 4,650,994</u>	<u>\$ 5,828,193</u>
Current liabilities				
Accounts payable	\$ 203,840	\$ 47	\$ 36,506	\$ 240,393
Accrued compensation and related accruals	812,771	1,675	6,877	821,323
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	1,016,611	1,722	43,383	1,061,716
Total liabilities	1,016,611	1,722	43,383	1,061,716
Net position				
Net invested in capital assets	162,798	-	385,967	548,765
Restricted	-	-	3,249,206	3,249,206
Unrestricted	(12,986)	9,054	972,438	968,506
	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	149,812	9,054	4,607,611	4,766,477
Total liabilities and net position	<u>\$ 1,166,423</u>	<u>\$ 10,776</u>	<u>\$ 4,650,994</u>	<u>\$ 5,828,193</u>

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating revenues				
Net patient service revenue	\$ 7,687,923	\$ 6,688	\$ -	\$ 7,694,611
Other operating revenue	1,283,667	-	265,914	1,549,581
Total operating revenues	8,971,590	6,688	265,914	9,244,192
Operating expenses				
Salaries and wages	8,456,864	-	176,530	8,633,394
Employee benefits and payroll taxes	1,473,612	-	45,107	1,518,719
Operating supplies and other	2,469,988	(132)	99,910	2,569,766
Purchased services	1,871,765	830	46,679	1,919,274
Insurance	189,490	-	-	189,490
Depreciation and amortization	84,406	-	-	84,406
Total operating expenses	14,546,125	698	368,226	14,915,049
Operating income (loss)	(5,574,535)	5,990	(102,312)	(5,670,857)
Other income (expenses)				
Other	-	-	(1,515,147)	(1,515,147)
Total other expenses	-	-	(1,515,147)	(1,515,147)
Contribution (to) from Hospital	5,815,080	(5,913)	309,693	6,118,860
Excess of revenue over (under) expenses	240,545	77	(1,307,766)	(1,067,144)
Contributions of restricted assets	-	-	375,433	375,433
Change in net position	240,545	77	(932,333)	(691,711)
Net position - beginning of year	149,812	9,054	4,607,611	4,766,477
Net position - end of year	\$ 390,357	\$ 9,131	\$ 3,675,278	\$ 4,074,766

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating revenues				
Net patient service revenue	\$ 7,348,029	\$ 21,880	\$ -	\$ 7,369,909
Other operating revenue	452,387	-	324,255	776,642
Total operating revenues	7,800,416	21,880	324,255	8,146,551
Operating expenses				
Salaries and wages	8,242,873	-	109,439	8,352,312
Employee benefits and payroll taxes	1,497,560	(7,939)	22,359	1,511,980
Operating supplies and other	2,307,451	1,591	61,085	2,370,127
Purchased services	1,745,984	5,330	41,094	1,792,408
Insurance	271,076	-	-	271,076
Depreciation and amortization	107,840	-	-	107,840
Total operating expenses	14,172,784	(1,018)	233,977	14,405,743
Operating income (loss)	(6,372,368)	22,898	90,278	(6,259,192)
Other income (expenses)				
Other	6,967	-	(1,081,909)	(1,074,942)
Total other income (expenses)	6,967	-	(1,081,909)	(1,074,942)
Contribution (to) from Hospital	6,234,729	(26,407)	177,177	6,385,499
Excess of revenue over (under) expenses	(130,672)	(3,509)	(814,454)	(948,635)
Contributions of restricted assets	-	-	15,457	15,457
Change in net position	(130,672)	(3,509)	(798,997)	(933,178)
Net position - beginning of year	280,484	12,563	5,406,608	5,699,655
Net position - end of year	\$ 149,812	\$ 9,054	\$ 4,607,611	\$ 4,766,477

See accompanying notes to financial statements

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Berger Health System (the "System"), located in Circleville, Ohio, is an acute-care hospital and related entities operated by a board of governors pursuant to an equal ownership agreement between the City of Circleville, Ohio and Pickaway County. The Board comprises nine (9) members: the Mayor of Circleville; three representatives appointed by the City, of which one must be a medical doctor; three representatives appointed by the County; and two at-large members selected and elected by the Board. As provided by the Board Bylaws, the Board may elect no more than two (2) ex-officio members. One ex-officio member, a physician, currently serves on the Board and a second ex-officio community leader was added in 2016. At all times, a majority of the Board members must be residents of Pickaway County. Pursuant to the agreement, the chairperson is elected by the Board. 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. On November 7, 2017, the residents of Circleville voted to approve the transition from a publically owned Hospital to a not for profit organization.

Discretely Presented Component Units

Berger Health Partners (BHP) provides healthcare and physician services in the geographic area served by the Hospital. BHP, 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. BHP received its 501(c)(3) status from the Internal Revenue Service (IRS) on February 28, 1996.

Pickaway Professional Services (PPS) provides anesthesia care and related professional services in the geographic area served by the Hospital. PPS is a corporation which was formed under Chapter 1785 of the Ohio Revised Code on October 25, 2005.

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.

The System created Berger Health Foundation Ventures, LLC (Ventures). Ventures was created to facilitate the System in performing activities permitted in Ohio by limited liability companies within the System's market area. Ventures were organized as a limited liability company whose sole member is Berger Health Foundation on October 31, 2006.

The accompanying basic financial statements include the accounts of Berger Hospital (the "Hospital"), Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, and Berger Health Foundation (collectively, the "System"). Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, and Berger Health Foundation are collectively the "component units" of the Hospital. Separate financial statements for the component units are not available.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Basis of Presentation

The financial statements include the accounts of Berger Hospital and its component units, Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, and Berger Health Foundation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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.

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.

Proprietary Fund Accounting

The System utilizes the propriety fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include assets designated for specific purposes as instructed by the donor. Funds held for donor-specified purposes classified as restricted cash and cash equivalents totaled approximately \$1,334,000 and \$2,084,000 at December 31, 2017 and 2016, respectively.

Investments

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

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, surgical supplies, and pharmaceutical products, are stated at the lower of cost or net realizable value, determined on a first-in, first-out basis.

Assets Whose Use is Limited

Assets whose use is limited consist of funds restricted in connection with the System's revenue bonds for the replacement, improvement, and expansion of the System's facilities.

Investment income or loss (including unrealized gains and losses on investments, realized gains and losses on investments, interest, and dividends) is included in non-operating gains (losses).

Property and Equipment

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 current and long-term liabilities 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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 restricted resources before unrestricted resources.

Classification of Net Position

Net position of the System is classified in three components. Invested in capital assets - net of related debt consists 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 assets represent noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System. Unrestricted net position consists of the remaining net position that does not meet the definition of invested in capital assets - net of related debt or restricted.

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 System estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the System.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 Revenue and Expenses

The System's statement of operations and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services - the System's principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

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

Of the Hospital's total operating expenses (approximately \$76,845,000 and \$70,558,000 during 2017 and 2016), an estimated \$214,000 and \$183,000 arose from providing services to charity patients during 2017 and 2016, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP), which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled \$1,691,038 and \$2,330,724 for 2017 and 2016, respectively, and are reported as net patient service revenue in the financial statements.

New Accounting Standards

During 2017, the System implemented GASB Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no material impact to these financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued.

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. There was no impact on changes in net position as a result of this reclassification.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 8, 2018, which is the date the financial statements are issued.

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

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

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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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:

- 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.
- Bonds, note debentures, or other obligations or securities issued by any federal governmental agency.
- No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- 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.
- Bonds and other obligations of the State of Ohio.
- The Ohio State Treasurer's investment pool (STAR Ohio).
- Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, Section 135.142.
- 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 (FDIC), 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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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. At year end, the System had approximately \$10,637,000 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 Federal Deposit Insurance Corporation (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.

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. Investments in U.S. government asset backed securities were uninsured and held by the System's agent in the System's name.

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.

Credit Risk - The System does not have an investment policy that addresses credit risk. The System maintains its investments in accounts which at times may exceed federally insured limits. The System has not experienced any losses in such accounts. The System believes that it is not exposed to any significant credit risk on investments.

STAR Ohio funds are held in the fund in the System's name. All other funds are held in the System's name by a custodial bank that is an agent of the System.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Hospital		Maturities	
December 31, 2017	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 262,721	\$ 262,721	\$ -
U.S. treasury notes	9,394,829	2,788,162	6,606,667
U.S. agency bonds	13,465,079	3,052,469	10,412,610
Total	<u>\$ 23,122,629</u>	<u>\$ 6,103,352</u>	<u>\$ 17,019,277</u>

Component Units		Maturities	
December 31, 2017	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 170,992	\$ 170,992	\$ -
Total	<u>\$ 170,992</u>	<u>\$ 170,992</u>	<u>\$ -</u>

Hospital		Maturities	
December 31, 2016	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 265,109	\$ 265,109	\$ -
U.S. treasury notes	11,419,015	7,757,926	3,661,089
U.S. agency bonds	11,339,483	4,131,747	7,207,736
Total	<u>\$ 23,023,607</u>	<u>\$ 12,154,782</u>	<u>\$ 10,868,825</u>

Component Units		Maturities	
December 31, 2016	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 169,885	\$ 169,885	\$ -
Total	<u>\$ 169,885</u>	<u>\$ 169,885</u>	<u>\$ -</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Cash deposits and investments of the System are composed of the following:

	2017		2016	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Hospital				
Demand deposits (including restricted)	\$ 9,333,675	\$ 9,333,675	\$ 9,684,334	\$ 9,684,334
Money market	60,467	60,467	57,453	57,453
Certificates of deposit	262,721	262,721	265,109	265,109
U.S. treasury notes	9,394,829	9,447,918	11,419,015	13,019,845
U.S. agency bonds	13,465,079	13,505,025	11,339,484	13,222,867
Total	<u>\$ 32,516,771</u>	<u>\$ 32,609,806</u>	<u>\$ 32,765,395</u>	<u>\$ 36,249,608</u>
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 9,333,675	\$ 9,333,675	\$ 9,684,334	\$ 9,684,334
Investments	23,183,096	23,276,131	23,081,061	26,565,274
Total	<u>\$ 32,516,771</u>	<u>\$ 32,609,806</u>	<u>\$ 32,765,395</u>	<u>\$ 36,249,608</u>
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Component Units				
Demand deposits	\$ 2,101,423	\$ 2,102,233	\$ 2,894,235	\$ 2,894,235
Certificates of deposit	170,992	170,992	169,885	169,885
Mutual funds	646,907	543,244	579,025	527,084
Total	<u>\$ 2,919,322</u>	<u>\$ 2,816,469</u>	<u>\$ 3,643,145</u>	<u>\$ 3,591,204</u>
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 938,198	\$ 938,198	\$ 980,022	\$ 980,022
Assets whose use is limited	1,981,124	1,878,271	2,663,123	2,611,182
Total	<u>\$ 2,919,322</u>	<u>\$ 2,816,469</u>	<u>\$ 3,643,145</u>	<u>\$ 3,591,204</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

3. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Money markets: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

U.S. treasury notes: Valued using pricing models maximizing the use of observable inputs for similar securities.

U.S. agency bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Mutual funds: Valued at the daily closing prices as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the System are deemed to be actively traded.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The System's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in either 2017 or 2016.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows:

Hospital	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	\$ -	\$ 60,467	\$ -	\$ 60,467
U.S. treasury notes	-	9,394,829	-	9,394,829
U.S agency bonds				
Federal home loans	-	2,757,386	-	2,757,386
Federal National Mortgage Association	-	4,661,832	-	4,661,832
Federal Home Loan Mortgage Corporation	-	6,045,861	-	6,045,861
	-	22,920,375	-	22,920,375
Cash	-	-	-	9,333,675
Certificates of deposit	-	-	-	262,721
Total	\$ -	\$ 22,920,375	\$ -	\$ 32,516,771
Component Units				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Large growth	\$ 71,064	\$ -	\$ -	\$ 71,064
Moderate allocation	254,438	-	-	254,438
World allocation	239,967	-	-	239,967
Short-term bond	81,438	-	-	81,438
	646,907	-	-	646,907
Cash	-	-	-	2,101,423
Certificate of deposit	-	-	-	170,992
Total	\$ 646,907	\$ -	\$ -	\$ 2,919,322

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows:

Hospital	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	\$ -	\$ 57,453	\$ -	\$ 57,453
U.S. treasury notes	-	11,419,015	-	11,419,015
U.S agency bonds				
Federal home loans	-	2,245,803	-	2,245,803
Federal National Mortgage Association	-	4,828,047	-	4,828,047
Federal Home Loan Mortgage Corporation	-	4,265,634	-	4,265,634
	-	22,815,952	-	22,815,952
Cash	-	-	-	9,684,334
Certificates of deposit	-	-	-	265,109
Total	<u>\$ -</u>	<u>\$ 22,815,952</u>	<u>\$ -</u>	<u>\$ 32,765,395</u>
Component Units				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Large growth	\$ 63,766	\$ -	\$ -	\$ 63,766
Moderate allocation	223,391	-	-	223,391
World allocation	210,639	-	-	210,639
Short-term bond	81,229	-	-	81,229
	579,025	-	-	579,025
Cash	-	-	-	2,894,235
Certificate of deposit	-	-	-	169,885
Total	<u>\$ 579,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,643,145</u>

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

Hospital	2017	2016
Patient accounts receivable	\$ 23,130,903	\$ 25,286,537
Less allowance for uncollectible accounts	(4,178,211)	(3,246,167)
Less allowance for contractual adjustments	(9,980,555)	(11,810,466)
Net patient accounts receivable	<u>\$ 8,972,137</u>	<u>\$ 10,229,904</u>
Component Units		
	2017	2016
Patient accounts receivable	\$ 1,064,932	\$ 1,036,328
Less allowance for uncollectible accounts	(88,482)	(86,105)
Less allowance for contractual adjustments	(335,491)	(277,398)
Net patient accounts receivable	<u>\$ 640,959</u>	<u>\$ 672,825</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	15%	26%	17%	26%
Medicare managed	13%	21%	14%	19%
Medicaid	2%	2%	2%	2%
Medicaid managed	18%	22%	18%	22%
Commercial	24%	25%	25%	28%
Self-pay	28%	4%	24%	3%
	100%	100%	100%	100%

5. PLEDGES RECEIVABLE

In 2013, the Foundation began a five year capital campaign to raise funds for capital improvements to be made to the Hospital. In May 2017, the Foundation began a capital campaign to help fund the building of a new Health and Wellness Center for the community. Pledges receivable associated with the campaigns as of December 31, 2017 and 2016 are as follows:

	2017	2016
Receivable in less than one year	\$ 314,088	\$ 332,834
Receivable in one to five years	325,528	314,862
Total unconditional promises to give	639,616	647,696
Less discounts to net present value	(61,125)	(43,487)
Less allowance for uncollectible promises	(17,355)	(18,126)
Net unconditional promises to give	\$ 561,136	\$ 586,083

The rate used to discount unconditional promises to net present value was 6% for 2017 and 2016. The rate used to calculate the allowance for uncollectible amounts was 3% for 2017 and 2016.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

The System has agreements with payors that provide for reimbursement to the System at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the System's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

- **Medicare** - Inpatient, acute-care 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 an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, 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 changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. 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. Cost Reports have been final settled through 2014 for Medicare and 2009 for Medicaid.

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

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. PROPERTY AND EQUIPMENT

Property and equipment for the Hospital for the years ended December 31, 2017 and 2016 was as follows:

	2016	Additions	Transfers	Retirements	2017
Capital assets not being depreciated:					
Land	\$ 3,235,731	\$ -	\$ -	\$ -	\$ 3,235,731
Construction in progress	474,115	6,502,412	(6,398,209)	-	578,318
Subtotal	3,709,846	6,502,412	(6,398,209)	-	3,814,049
Capital assets being depreciated:					
Land improvements	1,676,126	-	-	-	1,676,126
Buildings	34,414,189	-	-	(85,000)	34,329,189
Building improvements	28,375,230	-	4,901,650	-	33,276,880
Equipment	41,590,396	-	1,496,559	-	43,086,955
Subtotal	106,055,941	-	6,398,209	(85,000)	112,369,150
Total capital assets	109,765,787	6,502,412	-	(85,000)	116,183,199
Accumulated depreciation:					
Land improvements	1,515,183	66,184	-	-	1,581,367
Buildings	22,905,763	1,206,068	-	(41,160)	24,070,671
Building improvements	16,146,438	1,710,589	-	-	17,857,027
Equipment	35,338,332	1,722,730	-	-	37,061,062
Subtotal	75,905,716	4,705,571	-	(41,160)	80,570,127
Net capital assets	\$ 33,860,071	\$ 1,796,841	\$ -	\$ (43,840)	\$ 35,613,072
	2015	Additions	Transfers	Retirements	2016
Capital assets not being depreciated:					
Land	\$ 3,235,731	\$ -	\$ -	\$ -	\$ 3,235,731
Construction in progress	2,432,851	3,622,782	(5,581,518)	-	474,115
Subtotal	5,668,582	3,622,782	(5,581,518)	-	3,709,846
Capital assets being depreciated:					
Land improvements	1,599,606	-	76,520	-	1,676,126
Buildings	34,414,189	-	-	-	34,414,189
Building improvements	24,452,634	-	3,922,596	-	28,375,230
Equipment	40,007,994	-	1,582,402	-	41,590,396
Subtotal	100,474,423	-	5,581,518	-	106,055,941
Total capital assets	106,143,005	3,622,782	-	-	109,765,787
Accumulated depreciation:					
Land improvements	1,458,912	56,271	-	-	1,515,183
Buildings	21,681,985	1,223,778	-	-	22,905,763
Building improvements	14,499,456	1,646,982	-	-	16,146,438
Equipment	33,776,729	1,561,603	-	-	35,338,332
Subtotal	71,417,082	4,488,634	-	-	75,905,716
Net capital assets	\$ 34,725,923	\$ (865,852)	\$ -	\$ -	\$ 33,860,071

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Capital Asset activity for the component units for the year ended December 31, 2017 included approximately \$270,000 of additions and \$84,000 of depreciation. Capital Asset activity for the component units for the year ended December 31, 2016 included approximately \$27,000 of additions and \$108,000 of depreciation.

Depreciation expense on capital assets for the Hospital and component units combined for the year ended December 31, 2017 and 2016 totaled approximately \$4,790,000 and \$4,596,000, respectively.

8. ACCRUED COMPENSATION AND RELATED ACCRUALS

Hospital	2017	2016
Payroll and related items	\$ 2,400,403	\$ 2,414,680
Self-insured benefits	197,636	236,812
Health insurance claims	306,203	366,389
 Total accrued compensation and related accruals	 \$ 2,904,242	 \$ 3,017,881
 Component units	 2017	 2016
Payroll and related items	\$ 603,513	\$ 737,053
Self-insured benefits	313	15,405
Health insurance claims	86,645	68,865
 Total accrued compensation and related accruals	 \$ 690,471	 \$ 821,323

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2017 for both the Hospital and component units was as follows:

	2016	Current Year Additions	Current Year Reductions	2017	Amounts Due Within One Year
City of Circleville, Ohio Hospital Facilities					
Revenue Refunding and Improvement Bonds, series 2014 (maturing in June 2034)	\$ 21,695,000	\$ -	\$ (980,000)	\$ 20,715,000	\$ 1,020,000
 Total long-term debt and other liabilities	 \$ 21,695,000	 \$ -	 \$ (980,000)	 \$ 20,715,000	 \$ 1,020,000

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Long-term debt activity for the year ended December 31, 2016 for both the Hospital and component units was as follows:

	2015	Current Year Additions	Current Year Reductions	2016	Amounts Due Within One Year
City of Circleville, Ohio Hospital Facilities					
Revenue Refunding and Improvement Bonds, series 2014 (maturing in June 2034)	\$ 22,650,000	\$ -	\$ (955,000)	\$ 21,695,000	\$ 980,000
Total long-term debt and other liabilities	<u>\$ 22,650,000</u>	<u>\$ -</u>	<u>\$ (955,000)</u>	<u>\$ 21,695,000</u>	<u>\$ 980,000</u>

On May 1, 2014, the System entered into a financing agreement with the City, in which the City issued \$24,000,000 of Hospital Facilities Revenue Refunding and Improvements Bonds. The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2014 Bonds mature in quarterly principal installments ranging from \$215,000 in September 2014 to \$390,000 in June 2034 at a fixed rate of 2.67 percent. The bonds are subject to tender for mandatory purchase on June 1, 2021, unless waived by the holder.

In conjunction with the Series 2014 Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. At December 31, 2017, the System did not meet certain covenants relating to debt service coverage and timing of delivery of audited financial statements. The System obtained a waiver of these requirements. Substantially all assets and the assignment of profits from the System have been pledged as collateral against retirement of the Series 2014 Bonds.

The following is a schedule by years of bond principal and interest repayments:

Years Ending December 31	Long-term Debt	
	Principal	Interest
2018	\$ 1,020,000	\$ 550,492
2019	1,030,000	522,743
2020	1,070,000	495,872
2021	1,090,000	465,284
2022	1,130,000	435,404
2023-2027	6,100,000	1,699,414
2028-2032	6,990,000	817,706
2033-2034	2,285,000	54,354
Total	<u>\$ 20,715,000</u>	<u>\$ 5,041,269</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The Hospital leases various equipment and facilities under operating lease arrangements. The following is a schedule of minimum operating lease payments by year as of December 31, 2017:

Years Ending December 31	Minimum Annual Lease Payments
2018	\$ 1,179,522
2019	769,971
2020	764,829
2021	769,596
2022	708,487
Thereafter	1,901,773
Total	<u>\$ 6,094,178</u>

Total rent expense for the years ended December 31, 2017 and 2016 was approximately \$1,047,000 and \$1,073,000 for the Hospital. Total rent expense for the years ended December 31, 2017 and 2016 was approximately \$719,000 and \$846,000 for the component units. The majority of this expense is intercompany and the corresponding revenue is recorded in the Hospital.

10. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

Hospital	2017	2016
Patient Revenue:		
Inpatient services	\$ 44,637,358	\$ 41,357,404
Outpatient services	164,647,751	156,527,364
Total patient revenue	<u>209,285,109</u>	<u>197,884,768</u>
Revenue deductions:		
Provision for contractual allowances	124,846,593	118,250,941
Provision for bad debt allowances	6,593,081	2,908,492
Charity care	582,990	512,002
Total revenue deductions	<u>132,022,664</u>	<u>121,671,435</u>
Total net patient service revenue	<u>\$ 77,262,445</u>	<u>\$ 76,213,333</u>
 Component units	 2017	 2016
Patient Revenue:		
Outpatient services	\$ 13,351,152	\$ 11,091,089
Total patient revenue	<u>13,351,152</u>	<u>11,091,089</u>
Revenue deductions:		
Provision for contractual allowances	5,431,771	3,632,129
Provision for bad debt allowances	224,770	89,051
Total revenue deductions	<u>5,656,541</u>	<u>3,721,180</u>
Total net patient service revenue	<u>\$ 7,694,611</u>	<u>\$ 7,369,909</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

11. DEFINED BENEFIT PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The collective net pension asset and liability of the retirement systems and the System's proportionate share of the net pension asset and liability as of December 31 are as follows:

	2017	2016
Net pension liability - all employers	\$ 22,708,299,469	\$ 17,321,260,626
Proportion of the net pension liability - System	0.15481%	0.15184%
	\$ 35,155,173	\$ 26,300,429

	2017	2016
Net pension asset - all employers	\$ 56,073,439	\$ 49,044,245
Proportion of the net pension asset - System	0.23177%	0.23673%
	\$ 129,964	\$ 116,100

Pension expense for the years ending December 31, 2017 and 2016 was \$7,557,904 and \$3,836,089, respectively.

At December 31, 2017, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources

Net difference between projected and actual earnings on pension plan investments	\$	5,784,005
Difference between expected and actual experience		53,158
Assumption changes		5,608,561
Change in proportionate share		252,484
Difference between Berger contributions and proportionate share of contributions		286,385
Employer contributions subsequent to the measurement date		3,051,344
Total	\$	15,035,937

Deferred inflows of resources

Difference between expected and actual experience	\$	272,898
Net difference between projected and actual earnings on pension plan		618,778
Difference between Berger contributions and proportionate share of contributions		66,142
Change in proportionate share		92,877
Total	\$	1,050,695

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

At December 31, 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources	
Net difference between projected and actual earnings on pension plan investments	\$ 7,794,333
Difference between expected and actual experience	1,439
Employer contributions subsequent to the measurement date	2,444,881
Total	<u><u>\$ 10,240,653</u></u>
 Deferred inflows of resources	
Difference between expected and actual experience	\$ 563,586
Difference between Berger contributions and proportionate share of contributions	91,722
Change in proportionate share	167,165
Total	<u><u>\$ 822,473</u></u>

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending December 31 as follows:

	2018	4,459,278
	2019	4,765,555
	2020	1,856,953
	2021	(155,293)
	2022	(598)
	2023 and Thereafter	8,003
Total		<u><u>\$ 10,933,898</u></u>

Statutory Authority

Ohio Revised Code Chapter 145

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Benefit Formula

Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Contribution Rates

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Measurement Date

December 31, 2016

Actuarial Assumptions

Valuation Date: December 31, 2016
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 7.50%
Inflation: 3.25%
Projected Salary Increases: 3.25% - 10.75%
Cost-of-Living Adjustments: 3.00% Simple

Mortality Rates

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale.

Date of Last Experience Study

December 31, 2015

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23.0%	2.75%
Domestic Equity	20.7%	6.34%
Real Estate	10.0%	4.75%
Private Equity	10.0%	8.97%
International Equity	18.3%	7.95%
Other Investments	18.0%	4.92%
Total	100.0%	

* Returns presented as arithmetic means

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for both the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
\$ 53,707,379	\$ 35,155,173	\$ 19,695,183

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
\$ 11,589	\$ 129,964	\$ (238,728)

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

12. MEDICAL MALPRACTICE CLAIMS

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.

13. 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 \$125,000 per employee. Claims, charged to operations and paid when incurred, were approximately \$3,600,000 and \$3,300,000 for the years ended December 31, 2017 and 2016, respectively.

14. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statement may have on its future financial statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. This standard, which is the companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer's pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for periods beginning after June 15, 2018. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement will enhance consistency and comparability of the consolidated financial statements.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for periods beginning after June 15, 2017. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for business type activities), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after June 15, 2019. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

BERGER HEALTH SYSTEM

SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED) DECEMBER 31, 2017

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	2017	2016	2015
System proportion of the collective net pension liability	0.15481%	0.15184%	0.15391%
System proportionate share of the net pension liability	\$ 35,155,000	\$ 26,300,000	\$ 18,563,000
System proportion of the collective net pension asset	0.23177%	0.23673%	0.24163%
System proportionate share of the net pension asset	\$ 130,000	\$ 116,000	\$ 93,000
System covered payroll	\$ 20,374,000	\$ 21,031,000	\$ 21,063,000
System proportionate share of the net pension liability as a percentage of its covered payroll	171.9%	124.5%	87.7%
Plan fiduciary net position as a percentage of the total pension liability	77.4%	81.2%	86.5%
Schedule of System Contributions			
Contractually required contribution	\$ 3,051,000	\$ 2,445,000	\$ 2,524,000
Contributions in relation to the contractually required contribution	\$ 3,051,000	\$ 2,445,000	\$ 2,524,000
Contribution deficiency (excess)	-	-	-
Covered payroll	\$ 23,472,000	\$ 20,374,000	\$ 21,031,000
Contributions as a percentage of covered payroll	13.0%	12.0%	12.0%

Note: This schedule is intended to present ten years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Berger Health System
600 North Pickaway Street
Circleville, Ohio 43113

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 8, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the System's internal control. Accordingly, we have not opined on it.

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS (continued)**

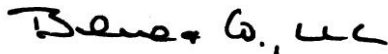
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

Compliance and Other Matters

As part of reasonably assuring whether the System's financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Westerville, Ohio
June 8, 2018



Dave Yost • 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
JULY 3, 2018**