

Consolidated Financial Statements and Other Financial Information

Berger Health System

Years ended December 31, 1999 and 1998 with Report of Independent Auditors

Berger Health System

Consolidated Financial Statements and Other Financial Information

Years ended December 31, 1999 and 1998

Contents

Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Fund Balances	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements	7
Other Financial Information	
Report of Independent Auditors on Other Financial Information.....	21
Details of Consolidated Balance Sheet	22
Details of Consolidated Statement of Operations	24
Details of Consolidated Statement of Changes in Fund Balances	25
Schedule of Financial and Statistical Highlights—Hospital Only (Unaudited) (Five Year Summary)	26



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398

Board of Governors
Berger Health System
Circleville, Ohio

We have reviewed the Independent Auditor's Report of the Berger Health System, Pickaway County, prepared by Ernst & Young LLP, for the audit period January 1, 1999 through December 31, 1999. 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, appearing to read "Jim Petro", written over a large, stylized flourish.

JIM PETRO
Auditor of State

July 7, 2000

Report of Independent Auditors

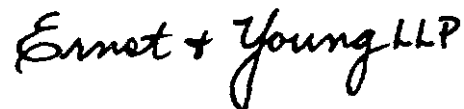
Board of Governors
Berger Health System

We have audited the accompanying consolidated balance sheet of Berger Health System (the System) as of December 31, 1999, and the related consolidated statements of operations, changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the System for the year ended December 31, 1998, were audited by other auditors whose report dated July 29, 1999, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berger Health System at December 31, 1999, and the consolidated results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated May 5, 2000 on our consideration of Berger Health System's internal control structure and on its compliance with laws and regulations.



May 5, 2000

Berger Health System
Consolidated Balance Sheets

	December 31	
	1999	1998
Assets		
General funds:		
Current assets:		
Cash and cash equivalents	\$ 2,682,725	\$ 715,393
Investments	3,662,156	2,500,000
Patient accounts receivable, less allowance for doubtful accounts (1999—\$4,700,000; 1998—\$3,464,000)	6,495,905	7,144,616
Estimated Medicare and Medicaid third-party settlements (Note 4)	495,720	25,623
Inventories	752,224	585,971
Prepaid expenses and other assets	235,545	155,250
Total current assets	14,324,275	11,126,853
Assets whose use is limited (Note 3):		
Designated by Board for operations	5,283,026	9,619,796
Designated by Board for capital improvements	-	500,000
Total assets whose use is limited	5,283,026	10,119,796
Property and equipment, net (Note 6)	29,836,273	27,563,011
Investment in CHO (Note 1)	67,218	293,968
Goodwill	99,387	107,501
Other assets	141,295	196,119
Total general funds	\$ 49,751,474	\$ 49,407,248
Restricted funds (Note 3):		
Cash and cash equivalents	\$ 253,266	\$ 319,015
Total restricted funds	\$ 253,266	\$ 319,015

	December 31	
	1999	1998
Liabilities and fund balances		
General funds:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,535,643	\$ 2,342,714
Accrued payroll and related liabilities	1,619,816	1,524,915
Accrued CHO operating losses <i>(Note 1)</i>	546,591	318,182
Accrued CHO contract losses <i>(Note 1)</i>	550,000	-
Current portion of long-term debt <i>(Note 5)</i>	70,000	65,000
Total current liabilities	<u>5,322,050</u>	<u>4,250,811</u>
Long-term debt, less current portion <i>(Note 5)</i>	1,794,167	1,864,583
General fund balance	42,635,257	43,291,854
Total general funds	<u>\$ 49,751,474</u>	<u>\$ 49,407,248</u>
Restricted funds:		
Fund balance	253,266	319,015
Total restricted funds	<u>\$ 253,266</u>	<u>\$ 319,015</u>

See accompanying notes.

Berger Health System
Consolidated Statements of Operations

	Year ended December 31	
	1999	1998
Revenue:		
Net patient service revenue <i>(Note 2)</i>	\$ 37,434,830	\$ 35,094,476
Premium revenue	771,731	947,184
Other revenue	1,007,156	902,396
Total revenue	39,213,717	36,944,056
Expenses:		
Wages and salaries	13,340,205	11,808,245
Benefits	2,798,037	2,498,602
Supplies and other	7,692,987	7,801,497
Purchased services	4,728,684	5,690,136
Provision for bad debts	6,026,069	4,522,488
Professional fees	774,561	577,665
Insurance	517,191	444,114
Depreciation and amortization	2,596,195	2,369,557
Interest expense	95,277	104,308
Total expenses	38,569,206	35,816,612
Income from operations before losses from CHO	644,511	1,127,444
Losses from CHO:		
CHO operating losses <i>(Note 1)</i>	(1,075,830)	(615,650)
CHO contract losses <i>(Note 1)</i>	(550,000)	-
	(1,625,830)	(615,650)
(Loss) income from operations	(981,319)	511,794
Nonoperating gains (losses):		
Investment income	559,319	977,769
Write-down of investment in CHO <i>(Note 1)</i>	(247,803)	-
Other	(3,154)	13,815
	308,362	991,584
Excess of (expenses over revenues and gains) revenues and gains over expenses	\$ (672,957)	\$ 1,503,378

See accompanying notes.

Berger Health System

Consolidated Statements of Changes in Fund Balances

	Year ended December 31			
	1999		1998	
	General	Donor Restricted	General	Donor Restricted
Fund balance—beginning of year	\$ 43,291,854	\$ 319,015	\$ 41,788,476	\$ 153,289
Excess of (expenses over revenues and gains) revenues and gains over expenses	(672,957)	-	1,503,378	-
Investment income	-	2,923	-	3,130
Gifts, grants, and bequests	-	152,315	-	200,621
Assets released from restriction for operations	-	(220,987)	-	(38,025)
Other	16,360	-	-	-
Fund balance—end of year	<u>\$ 42,635,257</u>	<u>\$ 253,266</u>	<u>\$ 43,291,854</u>	<u>\$ 319,015</u>

See accompanying notes.

Berger Health System

Consolidated Statements of Cash Flows - Restricted and Unrestricted Funds

	Year ended December 31	
	1999	1998
Operating activities		
Excess of (expenses over revenues and gains) revenues and gains over expenses	\$ (672,957)	\$ 1,503,378
Adjustments to reconcile excess of (expenses over revenues and gains) revenues and gains over expenses to net cash provided by operating activities:		
Depreciation and amortization	2,596,195	2,406,243
Net change in unrealized losses (gains) on investments	145,908	(73,946)
Write-off of investment in CHO	247,803	-
Write-off of receivable from physician	-	115,497
Cash provided by (used for) certain operating assets and liabilities:		
Patient accounts receivable, net	648,711	(2,053,086)
Inventories	(166,253)	15,334
Prepaid expenses and other assets	(80,295)	(50,005)
Accounts payable and accrued expenses	192,929	790,056
Accrued payroll and related liabilities	94,901	520,630
Accrued CHO operating losses	228,409	318,182
Accrued CHO contract losses	550,000	-
Estimated Medicare and Medicaid third-party settlements	(470,097)	670,377
Other assets	54,824	21,009
Net cash provided by operating activities	3,370,078	4,183,669
Investing activities		
(Increase) decrease in short term investments	(1,162,156)	1,000,000
Capital contributions to CHO	(21,053)	(98,348)
Decrease (increase) in assets whose use is limited--net	4,690,862	(1,201,159)
Net cash provided by (used in) investing activities	3,507,653	(299,507)
Capital and related financing activities		
Repayment of long-term debt	(65,416)	(65,000)
Acquisition of property and equipment, net	(4,861,343)	(7,814,015)
Net cash used in capital and related financing activities	(4,926,759)	(7,879,015)
Noncapital and related financing activities		
Donor restricted investment income	2,923	3,130
Donor restricted gifts, grants, and bequests	152,315	200,621
Assets released from restriction for operations	(220,987)	(38,025)
Other changes in fund balance	16,360	-
Net cash (used in) provided by noncapital financing activities	(49,389)	165,726
Net increase (decrease) in cash and cash equivalents	1,901,583	(3,829,127)
Cash and cash equivalents at beginning of year	1,034,408	4,863,535
Cash and cash equivalents at end of year	\$ 2,935,991	\$ 1,034,408
Reconciliation of cash and cash equivalents to the consolidated balance sheets		
Cash and cash equivalents in current assets	\$ 2,682,725	\$ 715,393
Cash and cash equivalents in restricted funds	253,266	319,015
Total cash and cash equivalents	\$ 2,935,991	\$ 1,034,408

See accompanying notes.

Berger Health System

Notes to Consolidated Financial Statements

December 31, 1999

1. Summary of Significant Accounting Policies

Organization

Berger Health System (the System) is operated by a Board of Governors pursuant to an agreement between the City of Circleville, Ohio and Pickaway County. The City of Circleville is the holder of legal title to the System. Members of the Board of Governors are appointed by the Board of County Commissioners and the Mayor of the City (four each) with the consent of City Council. The Mayor of the City of Circleville, by virtue of his position, is the President of the Board of Governors.

The System is comprised of two distinct entities, Berger Hospital and Pickaway Health Services (PHS). PHS provides health care and physician services in the geographic area served by Berger Hospital. PHS, which operates exclusively for the benefit and support of Berger Hospital, 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.

The accounting policies that affect significant elements of the System's financial statements are summarized below.

Basis of Presentation

The accompanying consolidated financial statements include all the accounts of Berger Hospital and PHS. All significant intercompany transactions and balances have been eliminated in consolidation. The statements are prepared based on proprietary accounting. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989 that are developed for business enterprises. The System does not apply Statement of Financial Accounting Standards and Interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. The System is a provider of services under the Medicare and Medicaid programs. A significant portion of the reimbursement for Medicare and Medicaid inpatient services is based on a price-per-case determined by the patient's clinical classification (diagnosis related group) and only certain expenses are reimbursed at adjusted costs. During the year, the System receives payment for Medicare and Medicaid services on an estimated basis, and patient accounts receivable reflect deductions to adjust standard charges to such estimates. Any difference between the System's standard rates for service performed and management's estimates of various programs' reimbursements are either charged or credited to net patient service revenue accounts as contractual adjustments. After completion of each fiscal year, the foregoing estimates are adjusted based on reports filed with the programs and the amounts which are owed to or by the System are reflected in the financial statements.

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, diagnosis related groups, 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 adjustments made to estimated third-party settlements on prior year cost reports. Estimated third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Premium Revenue

The System has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the System. In addition, the HMO's make fee-for-service payments to the System for certain covered services based upon discounted fee schedules.

Charity Care

The System accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. In assessing a patient's inability to pay, the System utilizes generally recognized poverty income levels, but also includes cases where incurred charges are significant when compared to the patients' financial resources. Because the System does not expect to receive payment of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Hospital Care Assurance Program

The Hospital Care Assurance Program (HCAP) provides financial assistance to the System for care provided to the indigent. Under HCAP, the System is assessed amounts which are matched with federal funds and subsequently redistributed to the System. In fiscal 1999 and 1998, the System received and recognized \$266,000 and \$373,000 respectively, in net HCAP distributions.

Operating and Nonoperating Activities

The System's primary purpose is to provide diversified health care services to the community. As such, activities related to the ongoing operations of the System are classified as revenue. Revenue includes those generated from direct patient care, related support services and sundry revenues related to the operation of the System. Gains and losses not directly related to the ongoing operations of the System are reported as nonoperating. Gains and losses related to investment income, sale of property and equipment and unrestricted contributions are classified as nonoperating.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The System defines cash as currency on hand and demand deposits with financial institutions. Cash equivalents are defined as short-term, highly liquid investments with original purchase maturities of three months or less.

Assets Whose Use is Limited and Investments

Assets whose use is limited consists of invested funds designated by the System's Board of Governors for the replacement, improvement, and expansion of the System's facilities. Assets whose use is limited are recorded at fair value based on quoted market prices.

Investments include certificates of deposit and money market accounts and are recorded at fair value based on quoted market prices.

Interest, dividends, and gains and losses, both realized and unrealized on investments in debt securities are included in nonoperating income when earned.

Inventories

Inventories are determined by physical count and are priced at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost or fair value at date received, if acquired by gift. The carrying value of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts.

Depreciation of property and equipment is provided by annual charges to expense on the straight-line method over the expected useful lives of the assets. The ranges of useful lives used in computing depreciation are 5 to 25 years for land improvements and equipment and 10 to 40 years for buildings.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Goodwill

The System has recorded goodwill arising from business acquisitions. Amortization of goodwill is provided by annual charges to expense on a straight-line basis over 15 years.

Investment in CHO

Community Hospitals of Ohio (CHO) is an organization whose purpose is to develop a community-based managed health care network in Ohio. The System holds one seat out of 14 on the Board of Directors and records its investment in CHO at cost. CHO members have agreed to indemnify each other for losses from operations incurred in their communities. These losses amounted to approximately \$1,076,000 and \$616,000 in 1999 and 1998, respectively. The System recorded an accrual of \$547,000 and \$318,000 at December 31, 1999 and 1998, respectively, for these losses.

During 1999, the System determined its fixed payment contract with CHO was operating as a loss contract. Accordingly, the System recorded an accrual of \$550,000 at December 31, 1999 for estimated contract losses.

On February 7, 2000, the Board of Directors of CHO approved the liquidation of CHO to be effective September 30, 2000. Management estimates they will receive approximately a \$67,000 return on their original investment on September 30, 2000. During 1999, the system recognized an investment impairment of approximately \$248,000 to write-down the CHO investment to its net realizable value.

Litigation

Because of the nature of its operations, the System is at all times subject to pending and threatened legal actions which arise in the normal course of its activities.

Malpractice and general patient liability claims have been asserted against the System by various claimants. The claims are in various stages and some may ultimately be brought to trial. At December 31, 1999, management believes asserted and unasserted claims and assessments will not exceed the limits of the insurance coverage. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at December 31, 1999.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Litigation (continued)

There may be other claims asserted arising from services provided to patients, however, because the annual insurance policy of the Hospital only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management has no basis to estimate the ultimate cost, if any, of the settlement of such potential claims and, accordingly, has not accrued for them. Management intends to maintain the current claims-made insurance coverage for the Hospital to cover any unknown incidents that may be asserted.

Prior to 1998, PHS maintained claims made annual insurance policies as described in the previous paragraph. In 1998, PHS changed the type of annual insurance policies from the claims made policies to occurrence based policies. PHS purchased tail coverage to bridge the gap between the two type of policies.

Functional Expenses

The System provides general health care services to residents within its geographic region. General and administrative expenses are approximately \$6,477,000 and \$5,956,000 of total expenses in 1999 and 1998, respectively.

Donor Restricted Funds

Donor restricted funds are segregated from general funds that are under the System's discretionary control. Restricted gifts and other restricted resources are recorded as direct additions to the appropriate restricted fund. Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period. Resources restricted by donors or grantors for operations are reported in other revenue to the extent used within the period. Unrestricted gifts and bequests are included in nonoperating gains in the statement of operations.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

In December 1998, GASB issued Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. This statement establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (e.g., donations). The statement addresses the timing of recognition of non-exchange transactions and will be effective for the year ending December 31, 2001. Management has not completed the process of evaluating the effects this statement will have on its financial position and results of operations when such statement is adopted.

Reclassifications

Certain reclassifications have been made to the 1998 financial statements to conform with the 1999 presentation.

2. Net Patient Service Revenue

Net patient service revenues are comprised for the following:

	Year ended December 31	
	1999	1998
Patient charges at established rates	\$56,653,660	\$ 51,521,879
Contractual adjustments	(19,300,697)	(16,621,579)
Hospital Care Assurance Program	266,477	372,825
Charity care	(184,610)	(178,649)
Net patient service revenue	<u>\$37,434,830</u>	<u>\$ 35,094,476</u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits, Investments and Assets Whose Use Is Limited

The classification of cash and cash equivalents, assets whose use is limited and investments in the financial statements for both the general fund and restricted fund is shown below in comparison to market values for such investments:

	December 31, 1999		December 31, 1998	
	Cost	Market	Cost	Market
Cash and cash equivalents:	\$ 2,935,991	\$ 2,935,991	\$ 1,034,408	\$ 1,034,408
Investments:				
Certificates of deposit	\$ 1,000,000	\$ 1,000,000	\$ 2,500,000	\$ 2,500,000
Money Market	2,662,156	2,662,156	-	-
	\$ 3,662,156	\$ 3,662,156	\$ 2,500,000	\$ 2,500,000
Assets whose use is limited:				
Cash	\$ -	\$ -	\$ 149,864	\$ 149,864
Government securities	4,820,948	4,783,906	8,261,946	8,365,392
Corporate obligations	500,630	499,120	500,630	504,540
Certificates of deposit	-	-	1,100,000	1,100,000
	\$ 5,321,578	\$ 5,283,026	\$10,012,440	\$10,119,796

The composition of investment income for the year ended December 31, is as follows:

	1999	1998
Change in unrealized (losses) gains	\$ (145,908)	\$ 73,946
Interest and dividend income	705,227	903,823
	\$ 559,319	\$ 977,769

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits, Investments and Assets Whose Use Is Limited (continued)

Deposits

At December 31, 1999, the carrying amount of the System's bank deposits for all funds is \$3,740,000 as compared to bank balance of \$4,479,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$461,000 is covered by federal insurance programs and \$4,018,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

Investments and Assets Whose Use Is Limited

The System's investments and assets whose use is limited are classified as available for sale and are recorded at market value. They are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the System or its agent in the System's name. Risk Categories 2 and 3 include investments which are neither insured nor registered. Category 2 includes investments held by the counterparty's trust department (or agent) in the System's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the System's name. As of December 31, 1999, all investments and assets whose use is limited were Category 1 investments.

4. Medicare and Medicaid Programs and Third-Party Settlements

In the healthcare industry, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in substantial compliance with all applicable laws and regulations but has had inquiries related specifically to the billing of laboratory services. In the opinion of management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the System. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Berger Health System

Notes to Consolidated Financial Statements (continued)

4. Medicare and Medicaid Programs and Third-Party Settlements (continued)

The reimbursement for Medicare and Medicaid patients is subject to final determination by the respective agencies. At December 31, 1999, final determinations have not been made for 1997 through 1999 for Medicare and 1995 through 1999 for Medicaid. The amounts reported on the financial statements represent estimated settlements outstanding at December 31, 1999 and 1998 which System management believes will approximate final settlements. The System recognized an increase in net patient service revenue of \$280,000 and \$204,000 in 1999 and 1998, respectively, on prior year estimated settlements.

Medicare and Medicaid represented 48% of charges at established rates for the years ended December 31, 1999 and 1998.

5. Long-Term Debt

Long-term debt consists of:

	December 31	
	1999	1998
\$2,000,000 loan agreement to the City of Circleville, Ohio, variable interest adjusted annually to a predetermined interest rate ranging from 5.036% to 5.400% (5.111% at December 31, 1999), retired by monthly principal and interest payments ranging from \$13,430 to \$13,838 starting December 1997 through December 2017	\$1,864,167	\$1,929,583
Less current portion	(70,000)	(65,000)
Long-term portion	\$1,794,167	\$1,864,583

Berger Health System

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Scheduled principal payments of long-term debt are as follows:

2000	\$ 70,000
2001	70,000
2002	75,000
2003	75,000
2004	80,000
Thereafter	1,494,167
Total	<u><u>\$1,864,167</u></u>

6. Property and Equipment

Property and equipment consist of the following:

	December 31	
	<u>1999</u>	<u>1998</u>
Land and land improvements	\$ 1,108,209	\$ 1,126,490
Buildings and fixed equipment	30,266,738	26,971,905
Major moveable equipment	15,894,031	13,349,572
Construction-in-progress	2,163,735	3,127,804
Total	<u>49,432,713</u>	<u>44,575,771</u>
Less allowance for depreciation	(19,596,440)	(17,012,760)
Property and equipment, net	<u><u>\$ 29,836,273</u></u>	<u><u>\$ 27,563,011</u></u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

7. Employee Benefit Plans

Pension Plan

All System employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by PERS for the year ended December 31, 1999 was approximately \$9,380,000.

The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (the ORC). PERS issues a stand-alone financial report, which can be obtained through written requests addressed to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The ORC provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent of eligible salary. The 1999 employer contribution rate for local government employer units was 13.55 percent of covered payroll (\$1,271,000 contributed in 1999). Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer records.

Postretirement Benefits

PERS also provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of the employer's contribution to PERS is set aside for the funding of postretirement health care. The ORC provides statutory authority for employer contributions. The 1999 employer contribution rate for local government employer units was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for the year 1999. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The System's 1999 contribution to the OPEB plan was \$394,000.

Berger Health System

Notes to Consolidated Financial Statements (continued)

7. Employee Benefit Plans (continued)

Postretirement Benefits (continued)

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 were \$523,599,000. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,000,000. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

8. Deferred Compensation

All full time employees of the System may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), a deferred compensation plan under Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service for State and Local Governments). Under the Program, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until *termination, retirement, death or unforeseeable emergency*.

Prior to 1998, all amounts of compensation deferred under a plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights were the sole property of the qualified employer and subject to the claims of the employer's general creditors. Participants' rights under the Program were equal to those of a general creditor of the employer in the amount equal to the fair value of the deferred account for each participant. The deferred compensation assets (market value of \$871,000 at December 31, 1997) were not reflected in the financial statements.

As a result of changes to IRC Section 457 and changes in 1998 at the state level, compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights are held in trust at the state level for the benefit of the participants.

Berger Health System

Notes to Consolidated Financial Statements (continued)

9. Tax Deferred Annuity Program

Employees of PHS may elect to participate in a tax deferred annuity program, which was established in accordance with the requirements of Section 403(b) of the Internal Revenue Code.

This plan permits eligible employees to make voluntary contributions on a pretax basis. This plan allows plan participants to invest their savings in various investments. The employer contribution expense incurred by PHS during 1999 and 1998 was approximately \$120,000 and \$85,000, respectively.

10. Operating Leases

On February 13, 1998, the System entered into an agreement with the Pickaway County Library to lease a building for an initial period of 20 years. Under the terms of the agreement, in lieu of rent during the initial term, the System agreed to make improvements and modifications to the existing premises at a cost of approximately \$620,000. As of December 31, 1999, the System has made all the improvements and modifications to the building required under the agreement. The System has an option to renew the agreement for two additional renewal terms of 5 years each.

11. Purchase Commitments

During 1999, the system entered into agreements to purchase information systems and software from various vendors. Management estimates that the system will spend approximately \$1,800,000 in 2000 related to these agreements.

Report of Independent Auditors on Other Financial Information

Board of Governors
Berger Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for information on page 26 marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

May 5, 2000

Berger Health System

Details of Consolidated Balance Sheet

December 31, 1999

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Assets				
General funds:				
Current assets:				
Cash and cash equivalents	\$ 2,514,393	\$ 168,332	\$ -	\$ 2,682,725
Investments	3,662,156	-	-	3,662,156
Accounts receivable—net	6,100,775	395,130	-	6,495,905
Inventories	752,224	-	-	752,224
Estimated Medicare and Medicaid third-party settlements—net	495,720	-	-	495,720
Prepaid expenses and other assets	233,899	1,646	-	235,545
Total current assets	13,759,167	565,108	-	14,324,275
Due from Pickaway Health Services	7,269,217	-	(7,269,217)	-
Assets whose use is limited:				
Designated by Board for operations	5,283,026	-	-	5,283,026
Property and equipment, net	29,642,835	193,438	-	29,836,273
Investment in CHO	67,218	-	-	67,218
Goodwill	-	99,387	-	99,387
Other assets	73,295	68,000	-	141,295
Total assets	\$ 56,094,758	\$ 925,933	\$ (7,269,217)	\$ 49,751,474
Restricted funds:				
Cash and cash equivalents	\$ 253,266	\$ -	\$ -	\$ 253,266
Total restricted funds	\$ 253,266	\$ -	\$ -	\$ 253,266

Berger Health System

Details of Consolidated Balance Sheet (continued)

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Liabilities and fund balances				
General funds:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 2,454,656	\$ 80,987	\$ -	\$ 2,535,643
Accrued payroll and related liabilities	1,066,287	553,529	-	1,619,816
Accrued CHO operating losses	546,591	-	-	546,591
Accrued CHO contract losses	550,000	-	-	550,000
Current portion of long-term debt	70,000	-	-	70,000
Total current liabilities	4,687,534	634,516	-	5,322,050
Due to Berger Hospital	-	7,269,217	(7,269,217)	-
Long-term debt, less current portion	1,794,167	-	-	1,794,167
General fund balance (deficit)	49,613,057	(6,977,800)	-	42,635,257
 Total general funds	 \$ 56,094,758	 \$ 925,933	 \$ (7,269,217)	 \$ 49,751,474
Restricted funds:				
Fund Balance	\$ 253,266	\$ -	\$ -	\$ 253,266
Total restricted funds	\$ 253,266	\$ -	\$ -	\$ 253,266

Berger Health System

Details of Consolidated Statement of Operations

Year ended December 31, 1999

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Revenue:				
Net patient service revenue	\$ 33,530,837	\$ 3,903,993	\$ -	\$ 37,434,830
Premium revenue	316,193	455,538	-	771,731
Other revenue	1,172,083	269,611	(434,538)	1,007,156
Total revenue	35,019,113	4,629,142	(434,538)	39,213,717
Expenses:				
Wages and salaries	9,380,390	3,959,815	-	13,340,205
Benefits	2,213,030	585,007	-	2,798,037
Supplies and other	6,778,265	1,069,456	(154,734)	7,692,987
Purchased services	4,512,542	495,946	(279,804)	4,728,684
Provision for bad debts	5,190,509	835,560	-	6,026,069
Professional fees	774,561	-	-	774,561
Insurance	270,400	246,791	-	517,191
Depreciation and amortization	2,558,871	37,324	-	2,596,195
Interest expense	95,277	-	-	95,277
Total expenses	31,773,845	7,229,899	(434,538)	38,569,206
Income (loss) from operations before losses from CHO	3,245,268	(2,600,757)	-	644,511
Losses from CHO:				
CHO operating losses	(1,075,830)	-	-	(1,075,830)
CHO contract losses	(550,000)	-	-	(550,000)
	(1,625,830)	-	-	(1,625,830)
Income (loss) from operations	1,619,438	(2,600,757)	-	(981,319)
Nonoperating gains (losses):				
Investment Income	553,625	5,694	-	559,319
Write-down of investment in CHO	(247,803)	-	-	(247,803)
Other	(3,154)	-	-	(3,154)
	302,668	5,694	-	308,362
Excess of revenue (expenses)	\$ 1,922,106	\$(2,595,063)	\$ -	\$(672,957)

Berger Health System

Details of Consolidated Statement of Changes in Fund Balances

Year ended December 31, 1999

	Berger Hospital	Pickaway Health Services	Total Consolidated Balance
General funds:			
Fund balance—beginning of year	\$ 47,690,834	\$ (4,398,980)	\$ 43,291,854
Excess of revenue (expenses)	1,922,106	(2,595,063)	(672,957)
Other	117	16,243	16,360
Fund balance—end of year	\$ 49,613,057	\$ (6,977,800)	\$ 42,635,257
Restricted funds:			
Fund balance—beginning of year	\$ 319,015	\$ -	\$ 319,015
Investment income	2,923	-	2,923
Gifts and bequests	152,315	-	152,315
Assets released from restriction for operations	(220,987)	-	(220,987)
Fund balance—end of year	\$ 253,266	\$ -	\$ 253,266

Berger Health System

Schedule of Financial and Statistical Highlights—Hospital Only (Unaudited)

Five Year Summary—1995 through 1999

	1999	1998	December 31 1997	1996	1995
Net days of revenue in net accounts receivable	66.4	79.9	56.9	51.9	42.4
Patient days:					
Medical and surgical	5,656	6,049	6,827	6,798	6,948
Special care	1,474	1,180	1,146	1,303	1,188
Rehabilitation	1,746	1,950	2,072	2,344	-
Maternity	524	89	-	-	-
Total patient days	9,400	9,268	10,045	10,445	8,136
Average percentage of occupancy—adult	41.2%	37.3%	41.7%	46.2%	46.4%
Inpatient admissions—adult	2,256	1,803	1,828	1,798	1,695
Average length of stay in days—adult	3.9	4.3	4.4	4.5	4.8
Departmental data:					
Operations	3,719	3,860	3,393	3,376	2,809
Radiology procedures	29,934	30,058	29,763	27,458	26,200
Laboratory procedures	315,654	325,484	358,708	311,720	272,323
Emergency room visits	25,449	23,131	21,913	23,157	23,184
Cardiopulmonary procedures	55,653	50,767	42,488	41,359	42,760

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

Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System (the System) as of and for the year ended December 31, 1999, and have issued our report thereon dated May 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Governors, Finance Committee, management and State Auditor of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

May 5, 2000

1
4

Berger Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 1999

Part I—Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified not
considered to be material weaknesses? yes X no

Noncompliance material to financial
statements noted? yes X no

Federal Awards Section

Not applicable.

Berger Health System

Schedule of Findings and Questioned Costs—Continued

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section.510.

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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.

By: *Susan Babbitt*

Date: AUG 08 2000