

Consolidated Financial Statements and Other Financial Information

Berger Health System

*Years ended December 31, 2002 and 2001 with Report of Independent Auditors*





**Auditor of State  
Betty Montgomery**

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, 2002 through December 31, 2002. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 16, 2003

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# Berger Health System

## Consolidated Financial Statements and Other Financial Information

Years ended December 31, 2002 and 2001

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## Report of Independent Auditors

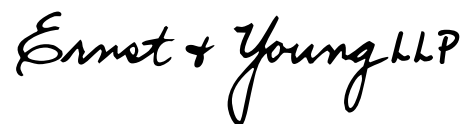
Board of Governors  
Berger Health System

We have audited the accompanying consolidated balance sheets of Berger Health System (the System), a component unit of the City of Circleville, as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in fund balances, and cash flows for the years 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide 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, 2002 and 2001, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated May 2, 2003 on our consideration of Berger Health System's internal control over financial reporting and our tests of its compliance with laws certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our report.



May 2, 2003

Berger Health System  
Consolidated Balance Sheets

	December 31	
	2002	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents <i>(Note 3)</i>	\$ 788,367	\$ 802,595
Investments <i>(Note 3)</i>	5,799,095	5,044,569
Patient accounts receivable, less allowance for doubtful accounts (2002—\$1,817,000; 2001—\$4,000,000)	6,680,984	5,547,265
Inventories	868,404	731,142
Prepaid expenses and other assets	725,842	1,530,907
Total current assets	14,862,692	13,656,478
Long-term investments <i>(Note 3)</i>	24,711,645	13,841,455
Property and equipment, net <i>(Note 6)</i>	31,095,218	28,708,570
Other assets	105,635	54,302
Total assets	\$ 70,775,190	\$56,260,805



	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
<b>Liabilities and fund balances</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,863,330	\$ 2,393,284
Accrued payroll and related liabilities	2,991,895	2,329,526
Estimated Medicare and Medicaid third-party settlements ( <i>Note 4</i> )	374,758	393,892
Current portion of long-term debt ( <i>Note 5</i> )	1,953,938	75,000
Total current liabilities	<u>8,183,921</u>	5,191,702
Long-term debt, less current portion ( <i>Note 5</i> )	9,149,103	1,648,750
Fund balances:		
Unrestricted	53,216,119	49,188,738
Restricted	226,047	231,615
	<u>53,442,166</u>	49,420,353
Total liabilities and fund balance	<u><u>\$ 70,775,190</u></u>	<u><u>\$ 56,260,805</u></u>

*See accompanying notes.*

Berger Health System  
Consolidated Statements of Operations

	<b>Year ended December 31</b>	
	<b>2002</b>	<b>2001</b>
Revenue:		
Net patient service revenue <i>(Note 2)</i>	<b>\$51,701,112</b>	\$ 46,324,255
Premium revenue	-	73,385
Other revenue	<b>1,034,621</b>	907,029
Total revenue	<b>52,735,733</b>	47,304,669
Expenses:		
Wages and salaries	<b>17,579,466</b>	14,419,002
Benefits	<b>5,067,753</b>	3,611,029
Supplies and other	<b>12,728,129</b>	11,252,672
Purchased services	<b>3,314,567</b>	3,282,793
Provision for bad debts	<b>4,503,275</b>	4,401,096
Professional fees	<b>2,982,530</b>	1,402,962
Insurance	<b>637,497</b>	428,241
Depreciation and amortization	<b>3,476,591</b>	3,148,391
Interest expense	<b>276,245</b>	101,721
Total expenses	<b>50,566,053</b>	42,047,907
Gain from operations	<b>2,169,680</b>	5,256,762
Nonoperating gains (losses):		
Investment income <i>(Note 3)</i>	<b>1,717,423</b>	928,146
Gain on sale of assets	-	151,912
Unrestricted contributions	<b>140,278</b>	138,281
	<b>1,857,701</b>	1,218,339
Excess of revenues and gains over expenses	<b>\$ 4,027,381</b>	\$ 6,475,101

*See accompanying notes.*

Berger Health System

Consolidated Statements of Changes in Fund Balances

	Year ended December 31			
	2002		2001	
	Unrestricted	Donor Restricted	Unrestricted	Donor Restricted
Fund balance at beginning of year	\$ 49,188,738	\$ 231,615	\$ 42,713,637	\$ 416,439
Excess of revenues and gains over expense	4,027,381	-	6,475,101	-
Gifts, grants, and bequests	-	-	-	10,066
Assets released from restriction for operations	-	(5,568)	-	(194,890)
Fund balance at end of year	<u>\$ 53,216,119</u>	<u>\$ 226,047</u>	<u>\$ 49,188,738</u>	<u>\$ 231,615</u>

*See accompanying notes.*

## Berger Health System

### Consolidated Statements of Cash Flows - Restricted and Unrestricted Funds

	<b>Year ended December 31</b>	
	<b>2002</b>	<b>2001</b>
<b>Operating activities</b>		
Excess of revenues and gains over expenses	\$ 4,027,381	\$ 6,475,101
Adjustments to reconcile excess of revenues and gains over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,476,591	3,148,391
Net change in unrealized gains on investments	(159,254)	(130,290)
Investment income	(1,717,423)	(928,146)
Cash provided by (used for) certain operating assets and liabilities:		
Patient accounts receivable, net	(1,133,719)	2,413,007
Inventories	(137,262)	91,681
Prepaid expenses and other assets	805,065	(1,161,354)
Accounts payable and accrued expenses	470,046	(667,264)
Accrued payroll and related liabilities	662,369	157,669
Estimated Medicare and Medicaid third-party settlements	(19,134)	206,700
Other assets	(51,333)	273,535
Net cash provided by operating activities	6,223,327	9,879,030
<b>Investing activities</b>		
Investment income	1,717,423	928,146
Increase in current investments	(754,526)	(803,684)
Increase in long term investments	(10,710,936)	(9,114,706)
Net cash used in investing activities	(9,748,039)	(8,990,244)
<b>Capital and related financing activities</b>		
Proceeds from issuance of debt	10,000,000	-
Repayment of long-term debt	(620,709)	(70,000)
Acquisition of property and equipment, net	(5,863,239)	(1,711,149)
Net cash provided by (used in) capital and related financing activities	3,516,052	(1,781,149)
<b>Noncapital and related financing activities</b>		
Donor restricted gifts, grants, and bequests	-	10,067
Assets released from restriction for operations	(5,568)	(194,890)
Net cash used in noncapital financing activities	(5,568)	(184,823)
Net decrease in cash and cash equivalents	(14,228)	(1,077,186)
Cash and cash equivalents at beginning of year	802,595	1,879,781
Cash and cash equivalents at end of year	\$ 788,367	\$ 802,595

*See accompanying notes.*

# Berger Health System

## Notes to Consolidated Financial Statements

December 31, 2002

### **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. As a result of this reporting relationship and pursuant to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the System is a component unit of the City of Circleville.

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

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

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

#### **Basis of Presentation**

The accompanying consolidated financial statements include all the accounts of the Hospital, PHS, and PPS. 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.

#### **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.

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### 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 (and effective August 1, 2000, outpatient Medicare 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. 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. 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.

#### 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.

#### Premium Revenue

The System had agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the System received 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 made fee-for-service payments to the System for certain covered services based upon discounted fee schedules.

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

#### **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 2002 and 2001, the System received and recognized approximately \$35,000 and \$20,000 respectively, in net HCAP distributions.

In 2001, the System applied to and was accepted into Medicaid's Supplemental Upper Limit Payment for Public Hospitals (UPL) program. Under the UPL, Berger makes semi-annual payments intergovernmental transfers to Medicaid in return for a larger supplemental inpatient hospital payment from Medicaid. The System received net payments under the UPL program of \$693,000 and \$740,000 in 2002 and 2001, respectively. These receipts have been recorded as a reduction of the System's contractual adjustments. As a result of the System's participation in the UPL program in the current year, the System may not be eligible to receive its 2003 HCAP distribution. Accordingly, the System has accrued \$420,000 included in estimated third party settlements at December 31, 2002 for the estimated reduction in 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.

#### **Investments**

Investments are recorded at market value based on quoted market prices. Investments in certificates of deposit and money market accounts are classified as current.

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

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

#### **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 3 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)**

##### **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, 2002, 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, 2002.

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.

##### **Functional Expenses**

The System provides general health care services to residents within its geographic region. General and administrative expenses are approximately \$7,271,000 and \$6,810,000 of total expenses in 2002 and 2001, respectively.

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Donor Restricted Funds

Donor restricted funds are segregated from unrestricted 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 unrestricted 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 contributions are included in nonoperating gains in the statement of operations.

#### Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform with the 2002 presentation.

### 2. Net Patient Service Revenue

Net patient service revenues are comprised for the following:

	Year ended December 31	
	2002	2001
Patient charges at established rates	\$ 87,361,266	\$ 71,917,922
Contractual adjustments	(35,136,242)	(25,336,483)
Hospital Care Assurance Program	35,028	20,401
Charity care	(558,940)	(277,585)
Net patient service revenue	<u>\$ 51,701,112</u>	<u>\$ 46,324,255</u>

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### 3. Deposits and Investments

The classification of cash and cash equivalents, 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:

	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Cost</b>	<b>Market</b>	<b>Cost</b>	<b>Market</b>
Cash and cash equivalents:	<b>\$ 788,367</b>	<b>\$ 788,367</b>	<b>\$ 802,595</b>	<b>\$ 802,595</b>
Investments:				
Certificates of deposit	\$ 1,000,000	\$ 1,000,000	\$ 2,000,000	\$ 2,000,000
Money market accounts	4,799,095	4,799,095	3,044,569	3,044,569
	<b>\$ 5,799,095</b>	<b>\$ 5,799,095</b>	<b>\$ 5,044,569</b>	<b>\$ 5,044,569</b>
Long Term Investments:				
Government securities	<b>\$24,381,391</b>	<b>\$24,711,645</b>	<b>\$13,670,455</b>	<b>\$13,841,455</b>

Included in long-term investments at December 31, 2002 is \$10,000,000 in net proceeds from the Series 2000 and Series 2002B bonds described in Note B.

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

	<b>2002</b>	<b>2001</b>
Change in unrealized gains	\$ 159,254	\$130,290
Interest and dividend income	1,558,169	797,856
	<b>\$1,717,423</b>	<b>\$928,146</b>

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### **3. Deposits and Investments (continued)**

##### Deposits

At December 31, 2002, the carrying amount of the System's bank deposits for all funds is \$6,635,000 as compared to bank balance of \$7,485,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$467,000 is covered by federal insurance programs and \$ 7,018,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

##### Investments

The System's investments are classified as available for sale and are recorded at fair 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, 2002, all investments 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 extremely complex and subject to interpretation. The System believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

## 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 audit and final determination by the respective agencies. At December 31, 2002, final determinations have not been made for 2000 through 2002 for Medicare and 1998 through 2002 for Medicaid. The amounts reported on the financial statements represent estimated settlements outstanding at December 31, 2002 and 2001 which System management believes will approximate final settlements. The System recognized an increase in net patient service revenue of \$553,000 and \$128,000 in 2002 and 2001, respectively, on prior year estimated settlements.

Medicare and Medicaid represented 55% and 54% of charges at established rates for the years ended December 31, 2002 and 2001, respectively.

#### 5. Long-Term Debt

Long-term debt consists of:

	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
\$2,000,000 loan agreement to the City of Circleville, Ohio, variable interest adjusted annually to a Pre-determined interest rate ranging from 5.036% to 5.400% (5.217% at December 31, 2002), retired by monthly principal and interest payments ranging from \$13,430 to \$13,838 starting December 1997 through December 2017	<b>\$ 1,648,750</b>	\$1,723,750
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002	<b>5,454,291</b>	—
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002B	<b>4,000,000</b>	—
Total long-term debt:	<b>11,103,041</b>	1,723,750
Less current portion	<b>(1,953,938)</b>	(75,000)
Long-term portion	<b>\$ 9,149,103</b>	\$1,648,750

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### 5. Long-Term Debt (continued)

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

2003	\$ 1,953,938
2004	2,027,801
2005	2,106,751
2006	2,188,562
2007	1,597,239
Thereafter	<u>1,228,750</u>
Total	<u><u>\$11,103,041</u></u>

On April 1, 2002, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$6,000,000 of Hospital Facilities Revenue Bonds (Series 2002 Bonds). The Series 2002 Bonds mature in semi-annual installments ranging from \$545,708 in December 2002 to \$657,369 in June 2007, at a rate of 4.18 percent.

On November 1, 2002, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$4,000,000 of Hospital Facilities Revenue Bonds (Series 2002B Bonds). The Series 2002B Bonds mature in semi-annual installments ranging from \$374,791 in June 2003 to \$428,229 in December 2007, at a rate of 3.10 percent.

In conjunction with the Series 2002 and Series 2002B Bonds, the System is required to maintain certain financial covenants.

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### 6. Property and Equipment

Property and equipment consist of the following:

	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
Land and land improvements	<b>\$ 1,629,240</b>	\$ 1,194,384
Buildings and fixed equipment	<b>35,132,173</b>	32,458,245
Major moveable equipment	<b>21,398,473</b>	20,203,656
Construction-in-progress	<b>1,730,301</b>	189,533
Total	<b>59,890,187</b>	54,045,818
Less allowance for depreciation	<b>(28,794,969)</b>	(25,337,248)
Property and equipment, net	<b><u>\$ 31,095,218</u></b>	<u>\$ 28,708,570</u>

#### 7. Employee Benefit Plans

##### Pension Plan

All Berger Hospital 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, 2002 was approximately \$14,185,000.

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 employer contribution rate for local government employer units was 13.55, 13.55, and 10.84 percent of covered payroll in 2002, 2001, and 2000, respectively (\$1,922,000, \$1,600,000, and \$1,150,000 contributed in 2002, 2001, and 2000, respectively).



## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### **7. Employee Benefit Plans (continued)**

##### **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 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for the year 2002. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The System's 2002 contribution to the OPEB plan was \$710,000.

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.

As of December 31, 2002, the unaudited estimated net assets available for future OPEB payments were \$11,600,000,000. The number of benefit recipients eligible for OPEB at December 31, 2002 was 402,041.

#### **8. 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 2002 and 2001 was approximately \$77,000 and \$128,000, respectively.



■ Ernst & Young LLP  
1100 Huntington Center  
41 South High Street  
Columbus, Ohio 43215

■ Phone: (614) 224-5678  
Fax: (614) 222-3939  
www.ey.com

## 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 25 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 2, 2003

## Berger Health System

### Details of Consolidated Balance Sheet

December 31, 2002

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Pickaway Professional Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 759,478	\$ 24,185	\$ 4,704	\$ -	\$ 788,367
Investments	5,799,095	-	-	-	5,799,095
Accounts receivable—net	5,863,556	645,298	172,130	-	6,680,984
Inventories	868,404	-	-	-	868,404
Prepaid expenses and other assets	661,299	24,481	8,168	31,894	725,842
Total current assets	13,951,832	693,964	185,002	31,894	14,862,692
Net due from Pickaway Health Services and Pickaway Professional Services	11,979,909	-	-	(11,979,909)	-
Long term Investments	24,711,645	-	-	-	24,711,645
Property and equipment, net	30,953,851	141,367	-	-	31,095,218
Other assets	105,635	-	-	-	105,635
Total assets	<u>\$ 81,702,872</u>	<u>\$ 835,331</u>	<u>\$ 185,002</u>	<u>\$ (11,948,015)</u>	<u>\$ 70,775,190</u>

## Berger Health System

### Details of Consolidated Balance Sheet (continued)

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Pickaway Professional Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
<b>Liabilities and fund balances</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 2,507,612	\$ 313,286	\$ 42,432	\$ -	\$ 2,863,330
Accrued payroll and related liabilities	2,237,635	576,000	178,260	-	2,991,895
Estimated Medicare and Medicaid					
Medicaid third-party settlements—net	374,758	-	-	-	374,758
Current portion of long-term debt	1,953,938	-	-	-	1,953,938
<b>Total current liabilities</b>	<b>7,073,943</b>	<b>889,286</b>	<b>220,692</b>	<b>-</b>	<b>8,183,921</b>
Due to Berger Hospital	-	11,983,705	(3,796)	(11,979,909)	-
Due to Pickaway Health Services	-	-	(31,894)	31,894	-
Long-term debt, less current portion	9,149,103	-	-	-	9,149,103
Fund balances (deficit):					
Unrestricted	65,253,779	(12,037,660)	-	-	53,216,119
Restricted	226,047	-	-	-	226,047
	65,479,826	(12,037,660)	-	-	53,442,166
<b>Total liabilities and fund balances</b>	<b>\$ 81,702,872</b>	<b>\$ 835,331</b>	<b>\$ 185,002</b>	<b>\$ (11,948,015)</b>	<b>\$ 70,775,190</b>

Berger Health System

Details of Consolidated Statement of Operations

Year ended December 31, 2002

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Pickaway Professional Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
Revenue:					
Net patient service revenue	\$ 47,672,203	\$ 3,429,815	\$ 599,094	\$ -	\$ 51,701,112
Other revenue	1,300,928	180,659	224,906	(671,872)	1,034,621
Total revenue	48,973,131	3,610,474	824,000	(671,872)	52,735,733
Expenses:					
Wages and salaries	14,185,364	2,944,476	449,626	-	17,579,466
Benefits	4,271,300	600,859	195,594	-	5,067,753
Supplies and other	12,399,398	519,533	21,968	(212,770)	12,728,129
Purchased services	3,079,513	234,829	58,538	(58,313)	3,314,567
Provision for bad debts	3,808,990	610,394	83,891	-	4,503,275
Professional fees	3,137,257	233,721	12,341	(400,789)	2,982,530
Insurance	388,267	247,188	2,042	-	637,497
Depreciation and amortization	3,448,021	28,570	-	-	3,476,591
Interest expense	276,245	-	-	-	276,245
Total expenses	44,994,355	5,419,570	824,000	(671,872)	50,566,053
Gain (loss) from operations	3,978,776	(1,809,096)	-	-	2,169,680
Nonoperating gains (losses):					
Investment Income	1,717,346	77	-	-	1,717,423
Unrestricted contributions	140,278	-	-	-	140,278
	1,857,624	77	-	-	1,857,701
Excess of revenue (expenses)	\$ 5,836,400	\$ (1,809,019)	\$ -	\$ -	\$ 4,027,381

## Berger Health System

### Details of Consolidated Statement of Changes in Fund Balance

Year ended December 31, 2002

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Pickaway Professional Services</b>	<b>Total Consolidated Balance</b>
Unrestricted funds:				
Fund balance—beginning of year	\$ 59,417,379	\$ (10,228,641)	\$ -	\$ 49,188,738
Excess of revenue (expenses)	5,836,400	(1,809,019)	-	4,027,381
Fund balance—end of year	\$ 65,253,779	\$ (12,037,660)	\$ -	\$ 53,216,119
Restricted funds:				
Fund balance—beginning of year	\$ 231,615	\$ -	\$ -	\$ 231,615
Assets released from restriction for operations	(5,568)	-	-	(5,568)
Fund balance—end of year	\$ 226,047	\$ -	\$ -	\$ 226,047

## Berger Health System

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

#### 5 Year Summary—1998 through 2002

	<b>December 31</b>				
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Net days of revenue in net accounts receivable	<b>44.9</b>	42.5	71.3	66.4	79.9
Patient days:					
Medical and surgical	<b>8,159</b>	6,768	5,948	5,656	6,049
Intensive care	<b>1,977</b>	1,942	1,918	1,474	1,180
Rehabilitation	<b>2,761</b>	2,638	2,217	1,746	1,950
Maternity	<b>922</b>	862	672	524	89
Total patient days	<b>13,819</b>	12,210	10,755	9,400	9,268
Departmental data:					
Operations (cases)	<b>3,928</b>	2,796	3,053	3,211	3,235
Radiology procedures	<b>37,692</b>	34,108	33,987	29,934	30,058
Laboratory procedures	<b>439,299</b>	371,372	328,642	315,654	325,484
Emergency room visits	<b>28,316</b>	27,122	27,736	25,449	23,131
Cardiopulmonary procedures	<b>76,063</b>	71,498	59,566	55,653	50,767

## 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), a component unit of the City of Circleville, as of and for the year ended December 31, 2002, and have issued our report thereon dated May 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Ohio 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. However, we noted certain other matters involving internal control over financial reporting that we have reported to management of the System in a separate letter dated May 2, 2003.

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.



May 2, 2003



Berger Health System

Schedule of Findings

Year Ended December 31, 2002

**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—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.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**BERGER HEALTH SYSTEM**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 26, 2003**