

Berger Health System

Financial Report
December 31, 2004



**Auditor of State
Betty Montgomery**

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 Plante & Moran, PLLC, for the audit period January 1, 2004 through December 31, 2004. 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

May 31, 2005

This Page is Intentionally Left Blank.

Berger Health System

Contents

Report Letter	1-2
Management Discussion and Analysis	3-14
Consolidated Financial Statements	
Balance Sheet	15-16
Statement of Operations	17
Statement of Cash Flows	18-19
Notes to Financial Statements	20-35
Component Units	
Combining Balance Sheet	36-37
Combining Statement of Operations	38
Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements	39-40

Independent Auditor's Report

To the Board of Governors
Berger Health System

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate discretely presented component units of the Berger Health System (System), a component unit of the City of Circleville, as of and for the year ended December 31, 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Berger Health System as of December 31, 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the System is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate discretely presented component units of Berger Health System (System), a component unit of the City of Circleville, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, Berger Health System has changed their method of presenting component units.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. . The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

February 25, 2005

Berger Health System

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Berger Health System's ("System") annual financial statements presents background information and management's discussion and analysis of the System's financial performance during the year ended December 31, 2004. This MD&A includes a discussion and analysis of the activities and results of the Primary Government Entity, Berger Hospital ("Hospital"), and Component units of Pickaway Health Services, Pickaway Professional Services and Berger Health Foundation.

This MD&A should be read together with the financial statements included in this report as the financial statement presents the Primary Government Entity, with additional commentary on the Component units using the methods described in Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board. .

FINANCIAL HIGHLIGHTS

- The Hospital's fund balance increased by \$653,000 and includes non-operating income of \$0.8 million in 2004.
- During the year, the Hospital's net operating revenue decreased by 2.2% to \$54.5 million while expenses increased by 7.6% to \$51.8 million. The resulting income from operations of \$2.6 million is a 40.3% decrease from 2003 operations.
- During the year, the Hospital made the following significant capital acquisitions and improvements:
- New and upgraded diagnostic capabilities, including new radiology and mammography equipment, and voice recognition dictation.
- Purchase of patient tracking system for Emergency Dept.
- Final phase of hospital-wide patient monitoring system.
- Purchased properties surrounding hospital main campus for parking expansion.
- Construction of the Medical Office Building and related additions and improvements.
- Continued program to renovate patient rooms and nursing units.

The source of funding for these projects was derived from cash flows from operations and funds reserved for capital acquisitions.

Berger Health System

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenue and expenses are accounted for in the Statement of Operations and Changes in Net Assets. This statement measures the financial results of the Hospital's operations and presents revenue earned and expenses incurred. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year. The Hospital changed its method by which it is presenting its Component Units in the audited financial statements in 2004. The change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

Berger Health System

FINANCIAL ANALYSIS

The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's net assets and its changes. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent individuals and families), new or changed government legislation and the Hospital's strategic plan should also be considered.

A summary of the Hospital's Balance Sheets as of December 31, 2004 and 2003 is presented below (in thousands):

Capital assets	41,850	33,294	8,556	25.7%
Other assets	<u>8,108</u>	<u>9,542</u>	<u>(1,434)</u>	<u>-15.0%</u>
Total assets	<u>\$ 87,314</u>	<u>\$ 88,206</u>	<u>\$ (892)</u>	<u>-1.0%</u>
Current and other liabilities (excluding long-term debt)	\$ 12,005	\$ 9,868	\$ 2,137	21.7%
Long-term debt	<u>19,315</u>	<u>22,997</u>	<u>(3,682)</u>	<u>-16.0%</u>
Total Liabilities	31,320	32,865	(1,545)	-4.7%
General	55,974	55,130	844	1.5%
Restricted	<u>20</u>	<u>211</u>	<u>(191)</u>	<u>-90.5%</u>
Total net assets	<u>55,994</u>	<u>55,341</u>	<u>653</u>	<u>1.2%</u>
Total liabilities and net assets	<u>\$ 87,314</u>	<u>\$ 88,206</u>	<u>\$ (892)</u>	<u>-1.0%</u>

As can be seen in the above, net assets increased to \$56.0 million in 2004, up from \$55.3 million in 2003. The change in net assets resulted primarily from operating gains.

Berger Health System

FINANCIAL ANALYSIS (Cont.)

A summary of the Hospital's Statements of Operations and Changes in Net Assets for the years ended December 31, 2004 and 2003 is presented below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient service revenue	\$ 53,289	\$ 50,909	\$ 2,380	4.7%
Other	<u>1,208</u>	<u>1,345</u>	<u>(137)</u>	<u>-10.2%</u>
Total revenue	54,497	52,254	2,243	4.3%
Expenses				
Salaries and benefits	25,026	22,802	2,224	9.8%
Supplies and other	22,257	21,091	1,166	5.5%
Depreciation and amortization	<u>4,572</u>	<u>4,305</u>	<u>267</u>	<u>6.2%</u>
Total expenses	<u>51,855</u>	<u>48,198</u>	<u>3,657</u>	<u>7.6%</u>
Gain from operations	2,642	4,056	(1,414)	-34.9%
Non-operating income	<u>(6)</u>	<u>360</u>	<u>(366)</u>	<u>-101.7%</u>
Excess of revenue over expenses	2,636	4,416	(1,780)	-40.3%
Change in restricted fund balance	115	(15)	130	-866.7%
Transfer of assets between affiliates	(2,098)	(14,540)	12,442	-85.6%
Total net assets - beginning of year as restated	<u>55,341</u>	<u>65,480</u>	<u>(10,139)</u>	<u>-15.5%</u>
Total net assets - end of year	<u>\$ 55,994</u>	<u>\$ 55,341</u>	<u>\$ 653</u>	<u>1.2%</u>

Berger Health System

SOURCES OF REVENUE

During 2004, the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services, by payer, for the years ended December 31, 2004 and 2003, respectively.

Payer Mix	2004	2003
Medicare	39.4%	40.9%
Medicaid	16.5%	16.0%
Commercial	36.2%	35.1%
BWC	1.8%	1.7%
Self Pay	5.5%	5.7%
Other	0.6%	0.6%

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

OPERATING AND FINANCIAL PERFORMANCE

The Hospital's performance improved in 2004 in comparison to 2003. This section will discuss highlights of 2004 operations and changes in activity.

Berger Health System

REVENUE

Net patient service revenue increased \$2.4 million in 2004 primarily as a result of the increase in outpatient utilization and the expansion of outpatient services. Further discussion follows:

- Overall activity of the Hospital as measured by patient discharges adjusted for outpatient services (volume indicators) decreased to 8,883 in 2004 from 8,993 in 2003. This was a decrease of 1.2%. Contributing to this decrease were the variables listed in the following two bullet points.
- Inpatient activity levels (before adjusting for outpatients) decreased in terms of patient days and admissions, resulting in patient days and admissions of 13,925 and 3,641, respectively, in 2004. This was a decrease of 4.2% and 9.6%, respectively, from 2003 activity. Inpatient rehab realized a decrease of 416 patient days as a result of limiting admissions in conforming to the Medicare 75% rule.
- Outpatient visits, which include Emergency and off-site visits, were 89,640, or 3.2% above 2003 levels. Increases in outpatient activity were noted in radiology, with volumes in 2004 at 10,744, or 46.5% above 2003 levels; and laboratory and diagnostic center procedures, which experienced 5.3% and 7.4% increases, respectively.
- Additionally, in 2004, \$628,000 in net receipts under the Health Care Assurance Program (HCAP) was recognized. HCAP is an ODJFS program that helps hospitals partially offset losses from treating indigent patients by generating matching funds from the federal government through assessments made to each Ohio hospital. This is a distinct improvement over 2003 when Berger paid its assessment, but was not eligible for any funds distribution.
- Included in net patient service revenue are charges for patient services waived under the Hospital's charity care and Health Care Assurance Program (HCAP) policies. Both represent un-reimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and annual income levels. Based on established rates, gross charges of \$2.2 million were waived during 2004, an amount equal to the prior year. Management's commitment to provide emergency care for all patients without regard to their ability to pay continues to contribute to these levels.

Berger Health System

EXPENSE

Total operating expenses increased by \$3.7 million in 2004, which was attributed to the expansion of services at the Hospital. Further discussion follows:

- Employee compensation increased \$3.0 million as a result of the addition of clinical resources to meet the appropriate nursing staff needs and increased outpatient volumes. Merit increases awarded to employees were between 2-4% in 2004.
- The cost of supplies increased in comparison to 2003. This change was due to the number of complex surgical procedures requiring the use of expensive implants and prosthetics. Additionally, there was an increase in drug usage and cost with the startup of oncology services. As the total costs of supplies increased, supplies expense as a percent of net revenue increased 1.0% over 2003.
- Insurance expense decreased 28.2% from 2003 as a result of the Hospital's decision to switch to a self-insured approach to professional malpractice coverage in 2003, as the underlying factor for this decision was to reduce premium costs.
- Amounts recorded as Bad Debt expense decreased 1.7% for the Hospital and 10.1% on a consolidated System basis from 2003. This was a direct result of improved performance with accounts receivable for both the Hospital and Pickaway Health Services. The total was also less than 2003 (3.9% vs 4.2%) as calculated as a percent of gross revenue.
- Depreciation expense increased by \$267,000, or 6.2% over 2003. This is due to the capital acquisitions and improvements made to the Hospital.

Berger Health System

STATEMENT OF CASH FLOWS

Another way to assess the financial health of the Hospital is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps assess:

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

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Cash provided (used) by:			
Operating and non-operating activities	\$ 10,663	\$ 4,689	\$ 5,974
Capital and related financing activities	(18,677)	8,926	(27,603)
Investing activities	<u>8,241</u>	<u>(14,021)</u>	<u>22,262</u>
Net increase (decrease) in cash	227	(406)	633
Cash - Beginning of the year	<u>353</u>	<u>759</u>	<u>(406)</u>
Cash - End of the year	<u><u>\$ 580</u></u>	<u><u>\$ 353</u></u>	<u><u>\$ 227</u></u>

The Hospital's liquidity remained constant during the year. The following discussion amplifies the overview of cash flows presented above.

Cash provided by operating activities increased by \$5,974,000 over the prior year. This was largely due to substantial decreases in patient accounts receivable.

The Hospital used a significant portion of investments in 2004 in order to complete various construction projects, thus decreasing capital activities and increasing investing activities substantially from the prior year.

Berger Health System

ACTUAL TO BUDGET PERFORMANCE

As specified in the Bylaws, the Board of Governors is required to approve an annual budget. The budget remains in effect the entire year, but may be updated, as needed, to reflect increases or decreases in service volume as well as approved variances. An actual to budget comparison and analysis is presented monthly in interim financial statements, and the 2004 information is summarized below (in thousands):

	<u>2004 Actual</u>	<u>2004 Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient service revenue	\$ 53,289	\$ 54,811	\$ (1,522)	-2.8%
Other	<u>1,208</u>	<u>967</u>	<u>241</u>	<u>24.9%</u>
Total revenue	54,497	55,778	(1,281)	-2.3%
Expenses				
Salaries and benefits	25,026	25,752	(726)	-2.8%
Supplies and other	22,256	22,290	(34)	-0.2%
Depreciation and amortization	<u>4,572</u>	<u>4,662</u>	<u>(90)</u>	<u>-1.9%</u>
Total expenses	<u>51,854</u>	<u>52,704</u>	<u>(850)</u>	<u>-1.6%</u>
Gain from operations	2,643	3,074	(431)	-14.0%
Non-operating income	<u>(7)</u>	<u>123</u>	<u>(130)</u>	<u>-105.7%</u>
Excess of revenue over expenses	<u>\$ 2,636</u>	<u>\$ 3,197</u>	<u>\$ (561)</u>	<u>-17.5%</u>

In comparing actual versus budgeted 2004 results, the following variances occurred:

- The Hospital finished 2004 with a gain from operations less than budget by \$431,000.
- Operating revenue was under budget by \$1.5 million or 2.8%, due to an overall decrease in inpatient census, largely centered in inpatient rehab, and an increase in contractual adjustments.
- Operating expenses were under budget by \$850,000 largely due the following areas:
- Employee compensation was under budget by \$726,000 due to the net effect of discretionary hiring by the Hospital.
- Depreciation expense was under budget by \$90,000 as some non-construction capital purchases were delayed or reconsidered.

Berger Health System

CAPITAL ASSETS

During 2004, the Hospital invested \$13.0 million in a broad range of capital assets included in the table below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land improvements	\$ 2,456	\$ 2,122	\$ 334	15.7%
Buildings	\$ 35,621	\$ 35,333	288	0.8%
Equipment	<u>30,788</u>	<u>28,012</u>	<u>2,776</u>	<u>9.9%</u>
Total capital assets	68,865	65,467	3,398	5.2%
Less accumulated depreciation	(36,957)	(32,896)	(4,061)	12.3%
Construction in progress	<u>9,942</u>	<u>723</u>	<u>9,219</u>	<u>1275.1%</u>
Capital assets - net	<u>\$ 41,850</u>	<u>\$ 33,294</u>	<u>\$ 8,556</u>	<u>25.7%</u>

Capital assets have increased due to the fact that the Hospital has expanded its patient service capacity to meet the needs of the community. Construction in progress reflects the construction costs of the Medical Office Building. Additionally, the System continues to replace equipment as it becomes obsolete as well as upgrade the capabilities of its information systems.

The table below shows the Hospital's 2005 capital budget with projected spending of \$16.2 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(In thousands)
Building expansion	\$ 13,100
Expansion of services	615
Replacement equipment	1,971
Diagnostic Center leases	<u>500</u>
Total	<u>\$ 16,186</u>

More information about the Hospital's capital assets is presented in the Notes to the Financial Statements.

Berger Health System

LONG-TERM DEBT

At year-end, the Hospital had \$23.0 million in short-term and long-term notes and bonds, a decrease from \$26.7 million at December 31, 2003. Principal payments on long-term debt in 2004 were approximately \$3.7 million. More detailed information about the Hospital's long-term debt is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND 2005 BUDGET

The System's Board and management considered many factors when setting the 2005 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

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

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

Berger Health System

CONTACTING THE SYSTEM'S FINANCIAL MANAGER

This report is designed to provide our citizens, customers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability. If you have questions about this report or need additional financial information, contact the Vice President of Finance, Tim Colburn at (740) 420-8008.

Tim Colburn
Chief Financial Officer

Berger Health System

Consolidated Balance Sheet

Assets	2004	
	Hospital	Component Units
Current Assets		
Cash and cash equivalents (Note 3)	\$ 579,782	\$ 133,833
Short-term investments (Note 3)	18,998,705	-
Patient accounts receivable (Note 3)	5,733,050	633,208
Prepaid expenses and other	824,707	-
Inventories	1,304,796	54,740
Total current assets	27,441,040	821,781
Long-Term Investments (Note 4)	17,776,980	305,667
Capital Assets (Note 5)	41,849,659	197,449
Other Assets		
Notes and advances to affiliates	132,617	29,429
Bond issue costs	113,745	-
Total other assets	246,362	29,429
Total assets	<u>\$ 87,314,041</u>	<u>\$ 1,354,326</u>

Berger Health System

Consolidated Balance Sheet (Cont.)

Liabilities and Net Assets	2004	
	Hospital	Component Units
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 3,682,084	\$ -
Accounts payable	5,125,623	52,646
Cost report settlements payable	98,488	-
Accrued liabilities and other		
Accrued compensation and related (Note 7)	2,213,919	612,415
Accrued interest	61,624	-
Total current liabilities	11,181,738	665,061
Accrued Compensated Absences (Note 7)	822,819	204,374
Long-Term Debt (Note 6)	19,314,999	-
Notes and Advances from Affiliates	-	87,046
Total liabilities	31,319,556	956,481
Net Assets		
Invested in capital assets - net of related debt	18,852,576	197,449
Restricted		
Expendable for capital improvements, debt service and other purposes		305,667
Non-expendable for permanent endowments	19,879	-
Unrestricted	37,122,030	(105,271)
Total net assets	55,994,485	397,845
Total liabilities and net assets	<u>\$ 87,314,041</u>	<u>\$ 1,354,326</u>

Berger Health System

Consolidated Statement of Operations

	2004	
	Hospital	Component Units
Operating Revenue		
Net patient service revenue	\$ 53,288,977	\$ 4,748,096
Other revenue	1,208,338	961,951
Total operating revenue	54,497,315	5,710,047
Operating Expenses		
Salaries and wages	18,815,027	5,237,774
Employee benefits and payroll taxes	6,210,618	1,144,025
Operating supplies and other	15,057,914	1,030,154
Professional services and consultant fees	3,408,626	87,055
Purchased services	3,319,449	207,289
Insurance	470,862	246,679
Depreciation and amortization	4,571,921	30,729
Total operating expenses	51,854,417	7,983,705
Income (Loss) from Operations	2,642,898	(2,273,658)
Non-Operating Income (Expense)		
Interest expense	(845,454)	-
Investment income	669,618	59
Contributions	168,966	-
Total non-operating income	(6,870)	59
Excess of Revenue Over (Under) Expenses	2,636,028	(2,273,599)
Assets Released from Restriction	115,092	-
Transfer of Assets between Affiliates	(2,098,025)	2,098,025
Net Assets - Beginning of Year	55,341,390	573,419
Net Assets - End of Year	<u>\$ 55,994,485</u>	<u>\$ 397,845</u>

Berger Health System

Consolidated Statement of Cash Flows

	2004	
	Hospital	Component Units
Cash Flows from Operating and Non-Operating Activities		
Cash received from patients and third-party payors	\$ 54,657,981	\$ 5,184,006
Cash paid to employees and for professional services	(24,950,973)	(6,409,835)
Cash paid to suppliers for services and goods	(20,237,139)	(1,429,264)
Other operating revenue received	2,046,922	962,010
Cash paid for interest	(853,659)	-
Net cash provided by operating and non-operating activities	10,663,132	(1,693,083)
Cash Flows from Investing Activities		
Cash received from investments	39,374,484	-
Cash paid for investments	(31,133,500)	(305,665)
Net cash used in investing activities	8,240,984	(305,665)
Cash Flows from Capital and Related Financing Activities		
Activities		
Purchase of capital assets	(13,017,374)	(41,217)
Repayment of long-term debt	(3,677,083)	-
Assets released from restrictions	115,092	-
Equity transfers	(2,098,025)	2,098,025
Net cash used in capital and related financing activities	(18,677,390)	2,056,808
Net Increase in Cash and Cash Equivalents	226,726	58,060
Cash and Cash Equivalents - Beginning of year	353,056	75,773
Cash and Cash Equivalents - End of year	<u>\$ 579,782</u>	<u>\$ 133,833</u>

Berger Health System

Consolidated Statement of Cash Flows (Cont.)

A reconciliation of excess of revenue over (under) expenses to net cash from operating activities is as follows:

Excess of revenue over (under) expenses	\$	2,636,028	\$	(2,273,599)
Adjustments to reconcile net cash provided by operating activities				
Depreciation		4,571,921		30,729
Provision for bad debts		4,207,892		334,786
Changes in assets and liabilities				
Patient accounts receivable		(2,838,888)		101,124
Inventories and other assets		(220,732)		40,987
Accounts payable and accrued expenses		1,884,705		72,890
Cost report settlements		422,206		-
		<u> </u>		<u> </u>
Net cash provided by (used in) operating activities	\$	<u>10,663,132</u>	\$	<u>(1,693,083)</u>

Note I – Summary of Significant Accounting Policies

Organization – Berger Health System (the "System"), a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital 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 (4 each) with the consent of City Council. The Mayor of the City of Circleville, by virtue of their position, is the Chairperson of the Board of Governors. The System is considered a political subdivision of a state and is therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code.

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

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

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

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

Basis of Presentation – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued in June 1999. The System now follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive one-line look at the System's financial activities. There was no impact to the net assets of the System in adopting GASB No. 34. The System also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Note 1 – Summary of Significant Accounting Policies (Cont.)

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

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

Investments - Investments include certificates of deposit, money market accounts and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from income from operations.

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, consisting of medical and office supplies and pharmaceutical products, are stated at the lower of cost or market, determined by the first-in, first-out method.

Note 1 – Summary of Significant Accounting Policies (Cont.)

Capital Assets - Property and equipment are stated at cost or if donated, at fair value at the date of receipt. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives (primarily three to forty years) of the assets. Equipment under capital lease is amortized on the straight-line method over 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 recorded as a current liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the System may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

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

Classification of Net Assets - Net assets of the System are classified in four components. Net assets invested in capital assets-net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System, including amounts deposited with trustees as required by revenue note indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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

Note 1 – Summary of Significant Accounting Policies (Cont.)

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 of 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.

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

Operating Income (Loss) - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

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

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

Berger Health System

Notes to Financial Statements December 31, 2004

Note 2 – Change in Presentation

The Organization changed the method by which it is presenting its Component Units during 2004 from a “Blended” presentation to “Discrete” presentation for all disclosures within the 2004 financial statements. Change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

Note 3 - Deposits and Investments

Cash deposits and investments (all of which are considered available for sale) of the Organization are composed of the following:

	2004	
	Hospital	Component Units
Cash and short-term investments	\$ 19,578,487	\$ 439,500
U.S. Treasury or federal agency obligations	17,776,980	-
Total	<u>\$37,355,467</u>	<u>\$ 439,500</u>

At December 31, 2004, the bank balance of the System’s demand deposits and money market accounts totaled \$2,098,000. Of the balance, approximately \$426,000 was covered by federal depository insurance and \$1,672,000 was collateralized with securities held in a pooled collateral account at the pledging banks.

Investments in U.S. Government obligations were uninsured and held by the System’s agent in the System’s name. Investments in donated common stock were held by the System in the System’s name.

Berger Health System

Notes to Financial Statements December 31, 2004

Note 4 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	Year Ended December 31	
	2004	
	Hospital	Component Units
Patient accounts receivable	\$ 12,982,080	\$ 1,452,803
Allowance for uncollectible accounts	(2,327,068)	(320,895)
Allowance for contractual adjustments	<u>(4,921,962)</u>	<u>(498,700)</u>
Total accounts receivable	<u>\$ 5,733,050</u>	<u>\$ 633,208</u>

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

	December 31	
	2004	2003
Medicare	32%	27%
Medicaid	9%	16%
Commercial insurance and other	40%	39%
Self-pay	<u>19%</u>	<u>18%</u>
Total	<u>100%</u>	<u>100%</u>

Berger Health System

Notes to Financial Statements December 31, 2004

Note 5 – Capital Assets

Costs of property, plant, and equipment are summarized below:

	Balance January 1, 2004	Re- classifications	Additions	Disposals and Adjustments	Balance December 31, 2004
Capital assets not depreciated					
Land	\$ 1,091,561	\$ -	\$ 295,567	\$ -	1,387,128
Land improvements	1,030,449	-	38,507	-	1,068,956
Construction in progress	723,189	-	9,219,159	-	9,942,348
Total capital assets not depreciated	2,845,199	-	9,553,233	-	12,398,432
Capital assets depreciated					
Buildings	23,033,376	-	341,953	(315,765)	23,059,564
Building improvements	12,298,731	-	317,055	(54,342)	12,561,444
Equipment	28,012,250	-	2,805,133	(29,570)	30,787,813
Total capital assets depreciated	63,344,357	-	3,464,141	(399,677)	66,408,821
Accumulated depreciation					
Buildings	(8,675,461)	-	(875,885)	315,765	(9,235,581)
Building improvements	(6,076,871)	-	(711,003)	54,342	(6,733,532)
Equipment	(18,143,208)	-	(2,874,843)	29,570	(20,988,481)
Total accumulated depreciation	(32,895,540)	-	(4,461,731)	399,677	(36,957,594)
Net capital assets being depreciated	30,448,817	-	(997,590)	-	29,451,227
Net capital assets	\$ 33,294,016	\$ -	\$ 8,555,643	\$ -	\$ 41,849,659

Capital asset activity for the component units for the year included approximately \$40,000 of additions and \$30,000 of depreciation.

Depreciation and amortization expense on capital assets totaled \$4,602,650 in 2004.

The System has an active construction project at year end. The project is to build a medical office building. At year end, the System's outstanding commitment on this project is \$5,023,749.

Berger Health System

Notes to Financial Statements December 31, 2004

Note 6 – Long-Term Debt

Long-term activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Loan payable to City of Circleville, variable interest ranging from 5.3056% to 5.4%, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 1,573,333	-	(80,417)	\$ 1,492,916	85,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	6,005,000	-	(1,980,000)	4,025,000	1,980,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002B (maturing September 2013)	9,833,333	-	(666,666)	9,166,667	666,667
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	<u>9,262,500</u>	<u>-</u>	<u>(950,000)</u>	<u>8,312,500</u>	<u>950,000</u>
Total long-term debt	26,674,166	-	(3,677,083)	22,997,083	3,682,084
Less current portion	<u>(3,676,667)</u>			<u>(3,682,084)</u>	
Total long-term portion				<u>\$ 19,314,999</u>	

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

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$10,000,000 of Hospital Facilities Revenue Bonds (Series 2003B Bonds). The proceeds were used to construct, renovate and equip the emergency room, surgery center, and administrative offices, as well as construct a medical office building and other structures. The Series 2003B Bonds mature in quarterly principal installments ranging from \$167,000 in March 2004 to \$3,500,000 in September 2013, at a rate of 4.10 percent.

Berger Health System

Notes to Financial Statements December 31, 2004

Note 6 – Long-Term Debt (Cont.)

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$9,500,000 of Hospital Facilities Revenue Bonds (Series 2003C Bonds). The proceeds were used to fund construction of a medical office building and other structures, as well as land acquisitions. The Series 2003C Bonds mature in quarterly principal installments ranging from \$238,000 from March 2004 through September 2013, at a rate of LIBOR plus 1.25 percent.

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

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

The following is a schedule by years of bond principal and interest payments as of December 31, 2004:

	Debt	Debt Interest	Total
2005	\$ 3,682,084	\$ 724,541	\$ 4,406,625
2006	3,686,666	615,353	4,302,019
2007	1,743,810	526,284	2,270,094
2008	1,739,524	471,171	2,210,695
2009	1,716,667	415,898	2,132,565
Thereafter	<u>10,428,332</u>	<u>437,326</u>	<u>10,865,658</u>
Total	22,997,083	3,190,573	26,187,656
Current Portion	<u>3,682,084</u>	<u>724,541</u>	<u>4,406,625</u>
Long Term Portion	<u>\$ 19,314,999</u>	<u>\$ 2,466,032</u>	<u>\$ 21,781,031</u>

Berger Health System

Notes to Financial Statements December 31, 2004

Note 7 – Accrued Compensation and Related Accruals

The details of accrued compensation and related accruals are as follows:

	Hospital	Component Units
Payroll and related liabilities	\$ 2,213,919	\$ 612,415
Compensated absences	822,819	204,374
Accrued compensation and related	<u>\$ 3,036,738</u>	<u>\$ 816,789</u>

A schedule of changes in the System's compensated absences is as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Compensated absences	<u>\$ 831,394</u>	<u>\$2,188,806</u>	<u>\$(1,993,007)</u>	<u>\$1,027,193</u>

Note 8 – Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plans; however, healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2004 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2004, 2003 and 2002 employer contribution rate for local government units was 13.55% percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$2,459,000, \$2,235,000, and \$1,922,000 respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Post-Retirement Benefits – In order to qualify for post-retirement health care coverage, age and service retirees must have ten 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 Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.0 percent and 5.0 percent was the portion that was used to fund health care during 2004 and 2003, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2004 was \$752,600.

Note 8 – Defined Benefit Pension Plan (Cont.)

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

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial-accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2003 was 8.00%. An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00% to 6.00% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate) annually. These assumptions and calculations are based on the System's latest Actuarial Review performed as of December 31, 2003.

The number of active contributing participants in the Traditional and Combined Plans during 2004 was 369,885. As of December 31, 2003, the actuarial value of the Retirement System's net assets available for OPEB was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

Health Care Plan – On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures the OPERS's health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Note 9 – Cost Report Settlements

Approximately 53 percent of the System's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

Medicare - Inpatient, acute-care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for most outpatient services are based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000. The Medicare Modernization Act of 2003 extended these hold harmless provisions until January 1, 2006. The Hospital has recorded a liability for certain outpatient payments received prior to December 31, 2003, as the county the Hospital resides in has been reclassified to an urban area and as such, the Hospital would not be eligible for such payments under the hold harmless reimbursement provision.

Note 9 – Cost Report Settlements (Cont.)

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

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

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

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

Berger Health System

Notes to Financial Statements December 31, 2004

Note 10 – Net Patient Service Revenue

The System provides services to certain patients covered by various third-party payor arrangements that provide for payments to the System in amounts different than their established rates. Gross patient service revenue and the allowances to reconcile net patient service revenue are as follows:

	Year Ended December 31, 2004	
	Hospital	Component Units
Patient revenue		
Inpatient services		
Routine services	\$ 6,435,332	\$ -
Ancillary services	33,617,999	-
Outpatient ancillary services	<u>68,056,098</u>	<u>8,886,400</u>
Total patient revenue	108,109,429	8,886,400
Revenue deductions		
Provision for contractual allowances	48,403,141	3,803,518
Provision for bad debts	4,207,892	334,786
Charity care, net of Hospital Care		
Assurance received	<u>2,209,419</u>	<u>-</u>
Total revenue deductions	<u>54,820,452</u>	<u>4,138,304</u>
Total	<u>\$53,288,977</u>	<u>\$ 4,748,096</u>

Note 11 – 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 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 an additional \$10,000,000 of coverage.

Berger Health System

Notes to Financial Statements December 31, 2004

Note 11 – Medical Malpractice Claims (Cont.)

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.

Note 12 – Prior Period Adjustments

Net assets at the beginning of 2004 have been restated to correct an error related to amounts due to/from affiliates which have been determined to be transfers of assets in prior years. Had the error not been made, net assets would have decreased by \$14,539,753 for the Hospital in prior years, while the component units' net assets would have increased by the same amount in prior years.

	Year Ended December 31, 2004	
	Hospital	Component Units
Net assets, beginning of year - as previously reported	\$ 69,881,143	\$ (13,966,334)
Prior period adjustment correction of advances to affiliates as transfer of assets to affiliates	<u>(14,539,753)</u>	<u>14,539,753</u>
Net assets, beginning of year - as restated	<u><u>\$ 55,341,390</u></u>	<u><u>\$ 573,419</u></u>

Berger Health System

Component Units - Combining Balance Sheet

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Total Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 116,199	\$ (26,839)	\$ 44,473	\$ 133,833
Patient accounts receivable	512,590	120,618	-	633,208
Prepaid expenses	40,692	14,048	-	54,740
Total current assets	669,481	107,827	44,473	821,781
Long-Term Investments	-	-	305,667	305,667
Capital Assets	197,449	-	-	197,449
Other Assets				
Notes and advances to affiliates	29,429	-	-	29,429
Total assets	<u>\$ 896,359</u>	<u>\$ 107,827</u>	<u>\$ 350,140</u>	<u>\$ 1,354,326</u>

Berger Health System

Component Units – Combining Balance Sheet (Cont.)

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Total Component Units
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 48,246	\$ 4,160	\$ 240	\$ 52,646
Accrued compensation	<u>484,751</u>	<u>123,714</u>	<u>3,950</u>	<u>612,415</u>
Total current liabilities	532,997	127,874	4,190	665,061
Accrued Compensated Absences	172,841	31,533	-	204,374
Notes and Advances from Affiliates	<u>-</u>	<u>-</u>	<u>87,046</u>	<u>87,046</u>
Total liabilities	705,838	159,407	91,236	956,481
Net Assets				
Invested in capital assets - net of related debt	197,449	-	-	197,449
Restricted	-	-	-	-
Expendable for capital improvements, debt service and other purposes			305,667	305,667
Unrestricted	<u>(6,928)</u>	<u>(51,580)</u>	<u>(46,763)</u>	<u>(105,271)</u>
Total net assets	190,521	(51,580)	258,904	397,845
Total net assets and liabilities	<u>\$ 896,359</u>	<u>\$ 107,827</u>	<u>\$ 350,140</u>	<u>\$ 1,354,326</u>

Berger Health System

Component Units – Combining Statement of Operations

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Total Component Units
Operating Revenue				
Net patient service revenue	\$ 3,896,030	\$ 1,186,852	\$ -	\$ 5,082,882
Other revenue	618,570	295,578	47,803	961,951
Total operating revenue	4,514,600	1,482,430	47,803	6,044,833
Operating Expenses				
Salaries and wages	4,314,158	889,313	34,303	5,237,774
Employee benefits and payroll taxes	752,411	386,478	5,136	1,144,025
Operating supplies and other	823,737	177,013	29,404	1,030,154
Professional services and consultant fees	87,055	-	-	87,055
Purchased services	181,566	-	25,723	207,289
Insurance	246,679	-	-	246,679
Depreciation and amortization	30,729	-	-	30,729
Provision for bad debts	117,160	217,626	-	334,786
Total operating expenses	6,553,495	1,670,430	94,566	8,318,491
Operating Loss	(2,038,895)	(188,000)	(46,763)	(2,273,658)
Other Income				
Interest income	34	25	-	59
Excess of Expenses Over Revenue	(2,038,861)	(187,975)	(46,763)	(2,273,599)
Transfer of Assets Between Affiliates	1,752,289	40,069	305,667	2,098,025
Net Assets - Beginning of the Year	477,093	96,326	-	573,419
Net Assets - End of the Year	<u>\$ 190,521</u>	<u>\$ (51,580)</u>	<u>\$ 258,904</u>	<u>\$ 397,845</u>

Report Letter on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System (System), a component unit of the City of Circleville, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 2 to the financial statements, Berger Health System has changed their method of presenting component units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal controls 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 controls over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 agreements, noncompliance with which could have a

Board of Governors
Berger Health System

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Plante & Moran, PLLC

February 25, 2005



**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 14, 2005**