

Berger Health System

**Financial Report
with Additional Information
December 31, 2006**



Mary Taylor, CPA
Auditor of State

Board of Governors
Berger Health System
600 North Pickaway Street
Circleville, OH 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, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Berger Health System is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 12, 2007

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Berger Health System

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Independent Auditor's Report

To the Board of Governors
Berger Health System

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System"), a component unit of the City of Circleville, as of December 31, 2006 and 2005, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System, a component unit of the City of Circleville, at December 31, 2006 and 2005, and the respective changes in financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2007 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 26, 2007

Berger Health System

Management's Discussion and Analysis

This section of Berger Health System's (the "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, 2006. This MD&A includes a discussion and analysis of the activities and results of the primary government entity, Berger Hospital (the "Hospital"), and its component units, Pickaway Health Services (PHS), Pickaway Professional Services (PPS), and Berger Health Foundation (BHF).

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

Financial Highlights

- The System's net assets decreased to \$55.7 million in 2006. This was a \$1,057,000 decrease from 2005.
- During the year, the System's net operating revenue increased by 3.8 percent to \$66.6 million while expenses increased by 5.6 percent to \$67.9 million.
- Throughout 2006, the System made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations:
 - ◆ New/upgraded diagnostic capabilities, including an MRI, surgery table, a dual head variable angle nuclear medicine camera, and a portable x-ray machine
 - ◆ Upgraded the management of information systems capabilities with the following: an upgraded backup system, a wireless phone system, and nearly 100 replacement computers
 - ◆ Constructed a new outpatient diagnostic center in southern Pickaway County
 - ◆ Renovated lower level logistics and pharmacy suites

Berger Health System

Management's Discussion and Analysis (Continued)

Financial Statements

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

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

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

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

The System changed the method by which it is presenting its component units in the audited financial statements in 2005. 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.

Financial Analysis

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

A summary of the System's balance sheet as of December 31, 2006, 2005, and 2004 is presented below (dollars in thousands). As can be seen, net assets decreased to \$55.7 million in 2006, down from \$56.8 million in 2005 and \$56.4 million in 2004.

Cash and investments decreased \$8.1 million due to nearly \$4.2 million in capital asset purchases and \$3.8 million in repayment of long-term debt.

Berger Health System

Management's Discussion and Analysis (Continued)

Total liabilities decreased \$4.1 million due to \$3.8 million in repayment of long-term debt.

	2006	2005	\$ Change 2006-2005	% Change 2006-2005	2004
Cash and investments	\$ 22,906	\$ 31,007	\$ (8,101)	-26.1%	\$ 37,795
Capital assets	48,962	47,585	1,377	2.9%	42,047
Other assets	10,872	9,317	1,555	16.7%	8,826
Total assets	\$ 82,740	\$ 87,909	\$ (5,169)	-5.9%	\$ 88,668
Current and other liabilities	\$ 8,451	\$ 12,255	\$ (3,804)	-31.0%	\$ 12,961
Long-term debt	18,569	18,878	(309)	-1.6%	19,315
Total liabilities	27,020	31,133	(4,113)	-13.2%	32,276
General	55,420	56,421	(1,001)	-1.8%	56,066
Restricted	300	355	(55)	-15.5%	326
Total net assets	55,720	56,776	(1,056)	-1.9%	56,392
Total liabilities and net assets	\$ 82,740	\$ 87,909	\$ (5,169)	-5.9%	\$ 88,668

A summary of the System's statements of revenue, expenses, and changes in net assets for the years ended December 31, 2006, 2005, and 2004 is presented below (dollars in thousands).

	2006	2005	\$ Change 2006-2005	% Change 2006-2005	2004
Revenue					
Net patient revenue	\$ 63,893	\$ 61,937	\$ 1,956	3.2%	\$ 58,038
Other	2,669	2,203	466	21.2%	2,170
Total revenue	66,562	64,140	2,422	3.8%	60,208
Expenses					
Salaries and benefits	37,271	34,095	3,176	9.3%	31,408
Supplies and other	25,268	24,739	529	2.1%	23,767
Depreciation	5,397	5,471	(74)	-1.4%	4,603
Total expenses	67,936	64,305	3,631	5.6%	59,778
Gain (loss) from operations	(1,374)	(165)	(1,209)	732.7%	430
Nonoperating income (loss)	373	519	(146)	-28.1%	(68)
Excess of revenue over (under) expenses	(1,001)	354	(1,355)	-382.8%	362
Change in restricted fund balance	(55)	30	(85)	-283.3%	115
Total net assets - Beginning of year, as restated	56,776	56,392	384	0.7%	55,915
Total net assets - End of year	\$ 55,720	\$ 56,776	(1,056)	-1.9%	\$ 56,392

Berger Health System

Management's Discussion and Analysis (Continued)

Operating and Financial Performance

Sources of Revenue

During 2006, the System derived substantially all of its revenue from patient services. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross patient revenue, by payer, for the years ended December 31, 2006, 2005, and 2004.

<u>Payer</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	43.1%	42.2%	39.4%
Medicaid	18.7%	17.4%	16.5%
Commercial	30.3%	32.8%	36.2%
BWC	1.3%	1.5%	1.8%
Self Pay	6.0%	5.5%	5.5%
Other	0.6%	0.6%	0.6%

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

Revenue

Net patient revenue increased \$1.9 million in 2006 primarily as a result of a 4.0 percent overall rate adjustment effective January 1, 2006. Other factors contributing to this increase are the increase in outpatient utilization of surgery services and an increase in emergency room visits. Further discussion follows:

- Overall activity of the System as measured by patient discharges adjusted for outpatient services increased to 9,381 in 2006 from 9,000 in 2005. This was an increase of 4.23 percent. Contributing to this increase were the variables described below:
 - ◆ Inpatient activity levels during 2006 decreased in terms of patient days and in terms of admissions, resulting in patient days and admissions of 12,723 and 3,159, respectively. Inpatient rehabilitation realized a decrease of 420 patient days as a result of continued limiting of admissions to conform to the Medicare 75 percent rule.

Berger Health System

Management's Discussion and Analysis (Continued)

- ◆ Overall outpatient visits, which include emergency and off-site visits, totaled 87,682, or 3.7 percent below 2005 levels. Increases in outpatient activity were noted in surgery, with total outpatient surgeries in 2006 at 2,539, or 9.20 percent above 2005. Emergency department visits totaled 31,894, or 5.75 percent above 2005.
- ◆ During 2006, \$664,000 in net receipts under the Health Care Assurance Program (HCAP) were recognized. HCAP is a state program that helps hospitals partially offset losses from treating indigent patients by generating matching funds from the federal government through assessments made to each Ohio hospital.
- ◆ Included in net patient service revenue are charges for patient services waived under the System's charity care and HCAP policies. Both represent unreimbursed charges incurred by the System in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and income levels. Based on established rates, gross charges of \$3.3 million were waived during 2006. Management's commitment to provide care for all patients without regard to their ability to pay and the growing number of uninsured continue to contribute to these levels.

Expenses

Total operating expenses increased by \$3.6 million in 2006, which was attributed to the continued expansion of services at the System. Further discussion follows:

- Salaries and wages increased \$1.9 million from FY 2005 as a result of the addition of clinical resources to meet the appropriate staffing levels and merit increases. The Hospital increased 12.7 FTES from 2005, PHS added three new physicians, and PPS added a CRNA in 2006.
- Benefits increased \$1.3 million from FY 2005, as actual health insurance claims were \$1.9 million higher than in FY 2005.
- The cost of supplies increased in comparison to 2005. 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 associated with the oncology service line.
- Depreciation expense decreased by \$73,000, or 1.40 percent over 2005, but was \$795,000 more than 2004.
- Physician recruitment expense increased \$335,000 due to the recruitment of two surgeons, an internal medicine physician, and an additional CRNA.

Berger Health System

Management's Discussion and Analysis (Continued)

Statement of Cash Flows

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

	2006	2005	Increase (Decrease)	2004
Cash provided by (used in):				
Operating activities	\$ 2,185,665	\$ 3,265,630	\$ (1,079,965)	\$ 8,976,860
Financing activities	(9,077,077)	(13,793,784)	4,716,707	(17,437,370)
Investing activities	6,466,800	10,933,755	(4,466,955)	8,743,962
Net increase (decrease) in cash	(424,612)	405,601	(830,213)	283,452
Cash - Beginning of the year	1,117,882	712,281	405,601	428,829
Cash - End of the year	<u>\$ 693,270</u>	<u>\$ 1,117,882</u>	<u>\$ (424,612)</u>	<u>\$ 712,281</u>

The System's liquidity position remained consistent with 2005 and 2004. The results listed below are an overview of the cash flows presented above:

- Cash generated by operations was \$2.2 million in 2006 (\$3.7 million in 2005).
- Cash used was \$4.2 million for fixed asset additions in 2006 (\$9.1 million in 2005) and \$3.8 million for debt repayments (\$3.9 million in 2005). Equity transfer of \$3.9 million to component units (\$3.1 million in 2005)
- Cash provided by investing activities decreased \$3.5 million from 2005.

In 2006, Berger Health System continued to utilize its financial strength to build infrastructure to ensure that health care is provided locally in the future. The health care infrastructure includes the medical office building, the purchase of additional capital assets, recruitment of new physicians, and the development of clinics in the southern and northwestern part of Pickaway County.

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

Berger Health System

Management's Discussion and Analysis (Continued)

Actual to Budget Performance

As specified in the System's bylaws, the board of governors is required to approve an annual budget. An actual to budget comparison and analysis is presented monthly to the board. The final 2006 results are summarized below (dollars in thousands):

	<u>2006</u> <u>Actual</u>	<u>2006</u> <u>Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient revenue	\$ 63,893	\$ 66,122	\$ (2,229)	-3.4%
Other	<u>2,669</u>	<u>2,330</u>	<u>339</u>	<u>14.5%</u>
Total revenue	66,562	68,452	(1,890)	-2.8%
Expenses				
Salaries and benefits	37,271	36,960	311	0.8%
Supplies and other	25,268	26,976	(1,708)	-6.3%
Depreciation	<u>5,397</u>	<u>5,343</u>	<u>54</u>	<u>1.0%</u>
Total expenses	<u>67,936</u>	<u>69,279</u>	<u>(1,343)</u>	<u>-1.9%</u>
Loss from operations	(1,374)	(827)	(547)	66.1%
Nonoperating income	<u>373</u>	<u>1</u>	<u>372</u>	<u>37,200.0%</u>
Excess of revenue over expenses	<u>\$ (1,001)</u>	<u>\$ (826)</u>	<u>\$ (175)</u>	<u>21.2%</u>

In comparing actual versus budgeted 2006 results, the following variances are noted:

- The System finished 2006 with a gain from operations less than budget by \$175,000. The major contributors to this variance are described below:
 - ◆ Operating revenue was under budget by \$1.9 million, or 2.8 percent, due to higher than budgeted contractual rates and the fact that Berger Hospital terminated its managed care contract with United Healthcare due to unfavorable payment terms and was unable to negotiate a new contract until the fourth quarter of 2006.
 - ◆ Employee compensation was over budget by \$311,000 due to increased health insurance expense.
 - ◆ Depreciation expense was over budget by \$55,000.

Berger Health System

Management's Discussion and Analysis (Continued)

- ◆ Supplies and other expenses were under budget by \$1.7 million:
 - Repairs and maintenance expenses were \$400,000 under budget.
 - Medical and other supplies were under budget by \$442,000 due to lower service demand in many areas.
 - Leases and rental expense were \$514,000 under budget as a result of delayed implementation of the leased supply distribution system.

Capital Assets

During 2006, the System invested \$7.4 million in a broad range of capital assets included in the table below (dollars in thousands):

	2006	2005	\$ Change 2006-2005	% Change 2006 2005	2004
Land and land improvements	\$ 5,124	\$ 5,386	\$ (262)	-4.9%	\$ 2,456
Buildings	58,897	49,758	9,139	18.4%	35,638
Equipment	32,801	34,239	(1,438)	-4.2%	31,150
Total capital assets	96,822	89,383	7,439	8.3%	69,244
Less accumulated depreciation	(47,956)	(42,599)	(5,357)	12.6%	(37,139)
Construction in progress	98	801	(703)	-87.8%	9,942
Capital assets - Net	\$ 48,964	\$ 47,585	\$ 1,379	2.9%	\$ 42,047

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

- New/upgraded diagnostic capabilities, including an MRI, surgery table, a dual head variable angle nuclear medicine camera, and a portable x-ray machine
- Upgraded the management of information systems capabilities with the following: an upgraded backup system, a wireless phone system, and nearly 100 replacement computers
- Constructed a new outpatient diagnostic center in southern Pickaway County
- Renovated lower level logistics and pharmacy suites

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

Berger Health System

Management's Discussion and Analysis (Continued)

The table below shows the System's 2007 capital budget with projected spending of \$1.282 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(In thousands)
Information system upgrade	\$ 250
Replacement equipment	569
Building improvements	<u>463</u>
Total	<u>\$ 1,282</u>

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

Long-term Debt

At year end, the System had \$19.3 million in short-term and long-term notes and bonds, a decrease from \$23.1 million at December 31, 2005. Principal payments on long-term debt in 2006 were approximately \$3.8 million. More detailed information about the System's long-term debt is presented in the notes to the financial statements.

Economic Factors and 2007 Budget

The System's board and management considered many factors when setting the 2007 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 employee benefits
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

Berger Health System

Management's Discussion and Analysis (Continued)

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

Contacting the System's Financial Officer

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

Berger Health System

Balance Sheet

	December 31, 2006		December 31, 2005	
	Hospital	Component Units	Hospital	Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 494,546	\$ 198,724	\$ 1,111,598	\$ 6,284
Restricted cash and cash equivalents	90,000	-	2,592,435	-
Short-term investments (Note 2)	13,199,179	254,846	15,761,312	-
Net patient accounts receivable (Note 3)	7,687,678	369,805	6,641,426	441,667
Prepaid expenses and other	1,169,793	162,858	744,763	115,650
Inventory	1,374,248	-	1,247,339	-
Total current assets	24,015,444	986,233	28,098,873	563,601
Long-term Investments (Note 2)	8,376,450	290,752	11,238,680	296,618
Property and Equipment (Note 4)	48,377,195	585,965	47,035,661	550,040
Other Assets - Bond issue costs	107,759	-	125,823	-
Total assets	\$ 80,876,848	\$ 1,862,950	\$ 86,499,037	\$ 1,410,259
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt (Note 5)	\$ 713,113	\$ -	\$ 4,252,221	\$ -
Accounts payable	2,594,880	180,555	2,239,913	175,965
Estimated third-party payor settlements	145,838	-	585,837	-
Accrued liabilities and other:				
Accrued compensation and related accruals	2,754,475	675,049	3,139,532	602,013
Accrued interest	88,105	-	73,437	-
Total current liabilities	6,296,411	855,604	10,290,940	777,978
Long-term Debt (Note 5)	18,569,640	-	18,878,586	-
Other Liabilities - Accrued compensated absences (Note 5)	1,113,886	184,618	990,263	194,877
Total liabilities	25,979,937	1,040,222	30,159,789	972,855
Net Assets				
Invested in capital assets - Net of related debt	29,094,442	585,965	23,904,854	550,040
Restricted - Expendable for capital improvements, debt service, and other purposes	21,553	278,243	6,046	349,709
Unrestricted	25,780,916	(41,480)	32,428,348	(462,345)
Total net assets	54,896,911	822,728	56,339,248	437,404
Total liabilities and net assets	\$ 80,876,848	\$ 1,862,950	\$ 86,499,037	\$ 1,410,259

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

Berger Health System

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Units	Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 58,757,594	\$ 5,136,635	\$ 57,171,733	\$ 4,766,154
Other	1,556,049	1,112,609	1,434,387	769,132
Total operating revenues	60,313,643	6,249,244	58,606,120	5,535,286
Operating Expenses				
Salaries and wages	21,150,830	6,033,145	19,868,346	5,412,689
Employee benefits and payroll taxes	8,723,822	1,363,930	7,616,381	1,197,752
Operating supplies and other	16,462,425	1,560,355	15,907,120	1,219,102
Professional services and consultant fees	2,536,369	2,634	2,729,690	16,199
Purchased services	3,536,577	421,394	3,450,899	243,426
Insurance	412,812	334,961	625,445	547,396
Depreciation and amortization	5,364,894	32,520	5,439,795	31,824
Total operating expenses	58,187,729	9,748,939	55,637,676	8,668,388
Operating Income (Loss)	2,125,914	(3,499,695)	2,968,444	(3,133,102)
Other Income (Expense)				
Interest income	1,219,321	6,941	833,853	524
(Loss) gain on sale of property	(208,063)	-	22,878	-
Contributions	273,218	-	137,125	-
Interest expense	(918,690)	-	(475,609)	-
Total other income	365,786	6,941	518,247	524
Excess of Revenue Over (Under) Expenses	2,491,700	(3,492,754)	3,486,691	(3,132,578)
Contribution (to) from Component Units	(3,949,544)	3,949,544	(3,128,095)	3,128,095
Net Assets Released from Restriction	15,507	(71,466)	(13,833)	44,042
(Decrease) Increase in Net Assets	(1,442,337)	385,324	344,763	39,559
Net Assets - Beginning of year	56,339,248	437,404	55,994,485	397,845
Net Assets - End of year	\$ 54,896,911	\$ 822,728	\$ 56,339,248	\$ 437,404

Berger Health System

Statement of Cash Flows

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Units	Hospital	Component Units
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 57,711,342	\$ 5,208,497	\$ 56,263,357	\$ 4,934,441
Cash payments to suppliers for services and goods	(23,570,486)	(2,361,962)	(25,127,413)	(1,998,077)
Cash payments to employees and for professional services	(30,136,086)	(7,334,298)	(26,379,857)	(6,630,340)
Other operating revenue received	1,556,049	1,112,609	1,434,387	769,132
Net cash provided by (used in) operating activities	5,560,819	(3,375,154)	6,190,474	(2,924,844)
Cash Flows from Investing Activities				
Cash received from investments	20,106,861	29,263	15,242,687	358,758
Cash paid for investments	(14,682,498)	(278,243)	(5,312,361)	(349,709)
Interest income and other	1,284,476	6,941	993,856	524
Net cash provided by (used in) investing activities	6,708,839	(242,039)	10,924,182	9,573
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(4,200,597)	(68,445)	(9,109,506)	(384,415)
Repayment of long-term debt	(3,848,054)	-	(3,866,276)	-
Other capital-related contributions	15,507	(71,466)	(13,833)	44,042
Contributions (to) from component units	(3,949,544)	3,949,544	(3,128,095)	3,128,095
Cash paid for interest	(904,022)	-	(463,796)	-
Net cash provided by (used in) capital and related financing activities	(12,886,710)	3,809,633	(16,581,506)	2,787,722
Net (Decrease) Increase in Cash and Cash Equivalents	(617,052)	192,440	533,150	(127,549)
Cash and Cash Equivalents - Beginning of year	1,111,598	6,284	578,448	133,833
Cash and Cash Equivalents - End of year	\$ 494,546	\$ 198,724	\$ 1,111,598	\$ 6,284

Berger Health System

Statement of Cash Flows (Continued)

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

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 2,125,914	\$ (3,499,695)	\$ 2,968,444	\$ (3,133,102)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	5,364,894	32,520	5,439,795	31,824
Provision for bad debts	3,819,967	620,603	4,143,750	402,317
Changes in assets and liabilities:				
Patient accounts receivable	(4,866,219)	(548,741)	(5,052,126)	(234,030)
Inventories and other assets	(551,939)	(47,208)	(15,898)	(8,227)
Accounts payable and accrued expenses	108,201	67,367	(1,780,840)	16,374
Estimated third-party settlements	(439,999)	-	487,349	-
Net cash provided by (used in) operating activities	<u>\$ 5,560,819</u>	<u>\$ (3,375,154)</u>	<u>\$ 6,190,474</u>	<u>\$ (2,924,844)</u>

Noncash Capital and Related Financing Activities - The System entered into capital lease obligations of \$4,000,000 for new equipment in 2005.

Berger Health System

Component Units - Combining Balance Sheet December 31, 2006

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 181,831	\$ 10,254	\$ 6,639	\$ 198,724
Short-term investments	-	-	254,846	254,846
Accounts receivable	252,492	117,313	-	369,805
Prepaid expenses and other	136,310	21,547	5,001	162,858
Total current assets	570,633	149,114	266,486	986,233
Long-term Investments	82,130	-	208,622	290,752
Property and Equipment	199,998	-	385,967	585,965
Total assets	\$ 852,761	\$ 149,114	\$ 861,075	\$ 1,862,950
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	\$ 46,263	\$ 32,538	\$ 101,754	\$ 180,555
Accrued compensation	528,084	135,839	11,126	675,049
Total current liabilities	574,347	168,377	112,880	855,604
Other Liabilities - Accrued compensated absences	149,560	29,454	5,604	184,618
Total liabilities	723,907	197,831	118,484	1,040,222
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	199,998	-	385,967	585,965
Restricted - Expendable for capital improvements, debt service, and other purposes	-	-	278,243	278,243
Unrestricted	(71,144)	(48,717)	78,381	(41,480)
Total net assets (deficit)	128,854	(48,717)	742,591	822,728
Total liabilities and net assets (deficit)	\$ 852,761	\$ 149,114	\$ 861,075	\$ 1,862,950

Berger Health System

Component Units - Combining Balance Sheet (Continued) December 31, 2005

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ (17,588)	\$ (105,387)	\$ 129,259	\$ 6,284
Accounts receivable	356,716	84,951	-	441,667
Prepaid expenses and other	98,006	17,644	-	115,650
Total current assets	437,134	(2,792)	129,259	563,601
Long-term Investments	35,195	-	261,423	296,618
Property and Equipment	164,073	-	385,967	550,040
Total assets	\$ 636,402	\$ (2,792)	\$ 776,649	\$ 1,410,259
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	\$ 55,419	\$ 119,902	\$ 644	\$ 175,965
Accrued compensation	481,014	103,484	17,515	602,013
Total current liabilities	536,433	223,386	18,159	777,978
Other Liabilities - Accrued compensated absences	162,262	29,440	3,175	194,877
Total liabilities	698,695	252,826	21,334	972,855
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	164,073	-	385,967	550,040
Restricted - Expendable for capital improvements, debt service, and other purposes	-	-	349,709	349,709
Unrestricted	(226,366)	(255,618)	19,639	(462,345)
Total net assets (deficit)	(62,293)	(255,618)	755,315	437,404
Total liabilities and net assets (deficit)	\$ 636,402	\$ (2,792)	\$ 776,649	\$ 1,410,259

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2006

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	\$ 4,175,468	\$ 961,167	\$ -	\$ 5,136,635
Other	560,425	375,398	176,786	1,112,609
Total operating revenues	4,735,893	1,336,565	176,786	6,249,244
Operating Expenses				
Salaries and wages	4,865,061	1,077,808	90,276	6,033,145
Employee benefits and payroll taxes	936,595	418,565	8,770	1,363,930
Operating supplies and other	1,391,463	150,044	18,848	1,560,355
Professional services and consultant fees	2,634	-	-	2,634
Purchased services	138,042	-	283,352	421,394
Insurance	334,961	-	-	334,961
Depreciation and amortization	32,520	-	-	32,520
Total operating expenses	7,701,276	1,646,417	401,246	9,748,939
Operating Loss	(2,965,383)	(309,852)	(224,460)	(3,499,695)
Other Income - Interest income	896	-	6,045	6,941
Excess of Expenses Over Revenue	(2,964,487)	(309,852)	(218,415)	(3,492,754)
Transfer from Affiliate	3,155,634	516,753	277,157	3,949,544
Net Assets Released from Restriction	-	-	(71,466)	(71,466)
Increase (Decrease) in Net Assets	191,147	206,901	(12,724)	385,324
Net Assets (Deficit) - Beginning of year	(62,293)	(255,618)	755,315	437,404
Net Assets (Deficit) - End of year	\$ 128,854	\$ (48,717)	\$ 742,591	\$ 822,728

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Continued) Year Ended December 31, 2005

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	\$ 3,777,625	\$ 988,529	\$ -	\$ 4,766,154
Other	270,971	399,363	98,798	769,132
Total operating revenues	4,048,596	1,387,892	98,798	5,535,286
Operating Expenses				
Salaries and wages	4,393,548	958,324	60,817	5,412,689
Employee benefits and payroll taxes	787,037	404,966	5,749	1,197,752
Operating supplies and expenses	994,872	166,959	57,271	1,219,102
Professional services and consultant fees	16,199	-	-	16,199
Purchased services	133,500	-	109,926	243,426
Insurance	547,396	-	-	547,396
Depreciation and amortization	31,824	-	-	31,824
Total operating expenses	6,904,376	1,530,249	233,763	8,668,388
Operating Loss	(2,855,780)	(142,357)	(134,965)	(3,133,102)
Other Income - Interest income	506	18	-	524
Excess of Expenses Over Revenue	(2,855,274)	(142,339)	(134,965)	(3,132,578)
Transfer from Affiliate	2,602,460	(61,699)	587,334	3,128,095
Net Assets Released from Restriction	-	-	44,042	44,042
(Decrease) Increase in Net Assets	(252,814)	(204,038)	496,411	39,559
Net Assets (Deficit) - Beginning of year	190,521	(51,580)	258,904	397,845
Net Assets (Deficit) - End of year	\$ (62,293)	\$ (255,618)	\$ 755,315	\$ 437,404

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies

Organization - Berger Health System, a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital 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 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 (the "Hospital"), Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation (collectively, the "System"). Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation are collectively the "component units" of the Hospital.

Pickaway Health Services (PHS) provides 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 follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the System's financial activities.

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

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

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

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

Investments - Investments include certificates of deposit, money market accounts, and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized 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, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or market, determined on a first-in, first-out basis or market.

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

Capital Assets - Property and equipment are stated at cost or, if donated, at fair value at the date of receipt. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives (primarily 3 to 40 years) of the assets. Equipment under capital lease is amortized on the straight-line method over the 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 three components. Net assets invested in capital assets - net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System, including amounts deposited with trustees as required by revenue note indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance 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 nonoperating 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.

Charity care provided, based on charges at established rates, was approximately \$3,272,000 and \$3,409,000 in 2006 and 2005, respectively.

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

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

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

Note 2 - Deposits and Investments

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

The System has designated four banks for the deposit of its funds. An investment policy has been filed with the auditor of state on behalf of the Hospital. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

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

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

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

Note 2 - Deposits and Investments (Continued)

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

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

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

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

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had approximately \$1,563,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

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

Type of Investment	Carrying Value	How Held
U.S. Agency Bonds	\$ 22,328,000	Counterparty
STAR Ohio	238,000	Hospital's name

Interest Rate Risk

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

Investment	Fair Value	Weighted Average Maturity
U.S. Agency Bonds	\$ 22,328,000	1.45 years
STAR Ohio	238,000	0.00 years

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Agency Bonds	\$ 22,328,000	AAA	Standard & Poor's
STAR Ohio	238,000	AAA	Standard & Poor's

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>Hospital</u>	
	<u>2006</u>	<u>2005</u>
Patient accounts receivable	\$ 15,057,678	\$ 14,181,426
Less:		
Allowance for uncollectible accounts	(2,050,000)	(2,480,000)
Allowance for contractual adjustments	<u>(5,320,000)</u>	<u>(5,060,000)</u>
Net patient accounts receivable	<u>\$ 7,687,678</u>	<u>\$ 6,641,426</u>

	<u>Component Units</u>	
	<u>2006</u>	<u>2005</u>
Patient accounts receivable	\$ 1,999,805	\$ 1,391,667
Less:		
Allowance for uncollectible accounts	(720,000)	(330,000)
Allowance for contractual adjustments	<u>(910,000)</u>	<u>(620,000)</u>
Net patient accounts receivable	<u>\$ 369,805</u>	<u>\$ 441,667</u>

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 3 - Patient Accounts Receivable (Continued)

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

	Percentage	
	2006	2005
Medicare	31	35
Medicaid	8	9
Commercial insurance and HMOs	43	35
Self-pay	18	21
Total	100	100

Note 4 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2006 are summarized below:

	2005	Additions	Transfers/ Adjustments	Retirements	2006
Land	\$ 3,528,490	\$ 9,251	\$ -	\$ (327,130)	\$ 3,210,611
Land improvements	1,472,076	40,399	14,530	-	1,527,005
Buildings	32,786,188	207,927	2,729,288	(200,499)	35,522,904
Building improvements	16,954,090	59,234	285,612	-	17,298,936
Equipment	33,877,121	2,789,420	1,776,277	(7,395)	38,435,423
Construction in progress	801,300	4,094,930	(4,805,707)	-	90,523
Total	89,419,265	7,201,161	-	(535,024)	96,085,402
Less accumulated depreciation:					
Land improvements	(908,918)	(92,728)	-	-	(1,001,646)
Buildings	(9,421,340)	(1,380,259)	61,176	(20,885)	(10,761,308)
Building improvements	(7,531,572)	(952,080)	-	-	(8,483,652)
Equipment	(24,521,774)	(2,939,827)	4,560	(4,560)	(27,461,601)
Total	(42,383,604)	(5,364,894)	65,736	(25,445)	(47,708,207)
Net carrying amount	\$ 47,035,661	\$ 1,836,267	\$ 65,736	\$ (560,469)	\$ 48,377,195

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 4 - Capital Assets (Continued)

Cost of capital assets and related depreciable lives for December 31, 2005 are summarized below:

	<u>2004</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2005</u>
Land	\$ 1,387,128	\$ -	\$ 2,573,985	\$ (432,623)	\$ 3,528,490
Land improvements	1,068,956	43,987	359,133	-	1,472,076
Building	23,059,564	463,352	9,418,812	(155,540)	32,786,188
Building improvements	12,561,444	47,388	4,345,258	-	16,954,090
Equipment	30,787,813	2,529,334	561,068	(1,094)	33,877,121
Construction in progress	9,942,348	8,117,208	(17,258,256)	-	801,300
Total	<u>78,807,253</u>	<u>11,201,269</u>	<u>-</u>	<u>(589,257)</u>	<u>89,419,265</u>
Less accumulated depreciation:					
Land improvements	(827,504)	(81,414)	-	-	(908,918)
Buildings	(8,408,077)	(1,027,048)	13,785	-	(9,421,340)
Building improvements	(6,733,532)	(798,040)	-	-	(7,531,572)
Equipment	(20,988,481)	(3,533,293)	-	-	(24,521,774)
Total	<u>(36,957,594)</u>	<u>(5,439,795)</u>	<u>13,785</u>	<u>-</u>	<u>(42,383,604)</u>
Net carrying amount	<u>\$ 41,849,659</u>	<u>\$ 5,761,474</u>	<u>\$ 13,785</u>	<u>\$ (589,257)</u>	<u>\$ 47,035,661</u>

Capital asset activity for the component units for the years ended December 31, 2006 and 2005 included approximately \$68,000 and \$386,000 of additions and \$33,000 and \$32,000 of depreciation, respectively.

Depreciation and amortization expense on capital assets for the Hospital and component units for the years ended December 31, 2006 and 2005 totaled \$5,397,414 and \$5,471,619, respectively.

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 5 - Long-term Liabilities

Long-term liability activity for the year ended December 31, 2006 was as follows:

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 5.3 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 1,407,500	\$ -	\$ (90,000)	\$ 1,317,500	\$ 90,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	2,045,000	-	(1,980,000)	65,000	37,143
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing September 2013)	8,500,000	-	(500,000)	8,000,000	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	7,362,500	-	(712,500)	6,650,000	-
Chase equipment lease collateralized by the equipment purchased (maturing August 2010)	3,815,807	-	(565,554)	3,250,253	585,553
Total long-term debt	23,130,807	-	(3,848,054)	19,282,753	713,113
Compensated absences	1,185,140	2,793,373	(2,680,009)	1,298,504	649,000
Total noncurrent liabilities	\$ 24,315,947	\$ 2,793,373	\$ (6,528,063)	\$ 20,581,257	\$ 1,362,113

Long-term liability activity for the year ended December 31, 2005 was as follows:

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 5.3056 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 1,492,916	\$ -	\$ (85,416)	\$ 1,407,500	\$ 90,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	4,025,000	-	(1,980,000)	2,045,000	1,980,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing September 2013)	9,166,667	-	(666,667)	8,500,000	666,667
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	8,312,500	-	(950,000)	7,362,500	950,000
Chase equipment lease collateralized by the equipment purchased (maturing August 2010)	-	4,000,000	(184,193)	3,815,807	565,554
Total long-term debt	22,997,083	4,000,000	(3,866,276)	23,130,807	4,252,221
Compensated absences	1,027,193	2,360,071	(2,202,124)	1,185,140	592,000
Total noncurrent liabilities	\$ 24,024,276	\$ 6,360,071	\$ (6,068,400)	\$ 24,315,947	\$ 4,844,221

Note 5 - Long-term Liabilities (Continued)

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

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

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio 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. During 2006, the System refinanced the Series 2003C Bonds to change maturity of the instrument. The System will pay interest-only payments, at a rate of LIBOR plus 1.25 percent, until December 2009, at which time a lump-sum payment of \$3,087,500 will be due followed by quarterly principal installments ranging from \$238,000 through September 2013, plus interest.

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.

Berger Health System

Notes to Financial Statements December 31, 2006 and 2005

Note 5 - Long-term Liabilities (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2006:

Years Ending December 31	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2007	\$ 127,560	\$ 840,310	\$ 585,553	\$ 103,828
2008	123,274	835,781	606,257	83,122
2009	3,187,917	829,340	627,696	61,685
2010	1,055,833	595,877	1,430,746	28,840
2011	4,565,417	527,272	-	-
2012-2016	6,830,417	547,569	-	-
2017-2021	142,083	7,672	-	-
Total payments	<u>\$16,032,501</u>	<u>\$ 4,183,821</u>	<u>\$ 3,250,252</u>	<u>\$ 277,475</u>

Note 6 - Risk Management

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

The System and the component units are insured against medical malpractice claims under claims-made based policies, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policies, the System and the component units bear the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year. In addition, the System has an umbrella policy with an additional \$10,000,000 of coverage.

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

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

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

Note 7 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and postretirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment 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 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2006 member contribution rate for members of local governmental units was 9.00 percent of their annual covered salary. The 2006, 2005, and 2004 employer contribution rate for local government units was 13.70 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were approximately \$2,813,000, \$2,602,000, and \$2,459,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Postretirement Benefits - In order to qualify for postretirement health care coverage under the TP and CO plans, age and service retirees must have 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 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 postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2006 and 2005 employer contribution rate for local government employer units was 13.70 percent of covered payroll. Of this amount, 4.50 percent was the portion that was used to fund health care during both 2006 and 2005. The portion of the employer's contribution used to fund postemployment benefits for 2006 and 2005 was \$924,000 and \$768,000, respectively.

Note 7 - Defined Benefit Pension Plan (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement 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 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor. The investment return assumption rate for 2005 was 6.50 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 6.00 percent for the next nine years. In subsequent years (ten and beyond), health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the System's latest actuarial review performed as of December 31, 2005.

The number of active contributing participants in the Traditional and Combined Plans at December 31, 2006 was 369,214. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 358,804. As of December 31, 2005, the actuarial value of the Retirement System's net assets available for OPEB was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 8 - Cost Report Settlements

Approximately 56 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.
- **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, 2006 and 2005

Note 9 - Self-insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per employee. Claims, charged to operations when incurred, were approximately \$5,800,000 and \$4,200,000 for the years ended December 31, 2006 and 2005, respectively.

Note 10 - Commitment

In 2006, the System entered into a contract to lease medical office space at a site that is currently being constructed by a third party. The lease calls for the System to pay minimum lease payments upon completion of the construction in amounts ranging from \$576,000 to \$844,000 per year, over the term of the lease, ending in 2027.

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

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

To the Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System as of and for the year December 31, 2006 and have issued our report thereon dated April 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berger Health System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Berger Health System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

During the completion of the System's audit, we noted that during the beginning of the year there were instances in which reconciliations of account balances were not completed in a timely manner. Timeliness of the reconciliation process is a critical function in controlling the potential for misappropriation of assets and appropriately reporting financial statement data. This lack of timely reconciliations is considered a deficiency in the design in internal controls or detection of errors that is more than inconsequential within the financial statements. At December 31, 2006, reconciliations tested during our audit had been timely and effectively completed.

To the Board of Governors
Berger Health System

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Berger Health System in a separate letter dated April 26, 2007.

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

Plante & Moran, PLLC

April 26, 2007



Mary Taylor, CPA
Auditor of State

BERGER HEALTH SYSTEM

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 26, 2007**