

# **Berger Health System**

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**Financial Report  
with Additional Information  
December 31, 2011**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Berger Health System, Pickaway County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

June 21, 2012

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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 and for the years ended December 31, 2011 and 2010, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company'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 respective financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System as of December 31, 2011 and 2010, and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Governors  
Berger Health System

In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 11, 2012 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 internal control over financial reporting or 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 11, 2012



# 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 (MD&A) of the System's financial performance during the year ended December 31, 2011. This MD&A includes a discussion and analysis of the activities and results of the primary government entity, Berger Hospital, and its component units of 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 statements present the primary government entity and component units using the methods described in Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

### Financial Highlights

- The System's net assets increased to \$57.8 million in 2011. This was a \$700,000 increase from 2010.
- During the year, the System's net operating revenue increased by 1.5 percent to \$78.9 million while expenses decreased by .8 percent to \$77.0 million.
- Throughout 2011, the System made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations:
  - Purchase and installation of new IV Pumps
  - Purchase and installation of a new ultrasound system
  - Construction and opening of a new cardiac care unit

### 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.

# Berger Health System

## Management's Discussion and Analysis (Continued)

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.

### 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, 2011, 2010, and 2009 is presented below (in thousands). As can be seen, net assets increased to \$57.8 million in 2011, up from \$57.2 million in 2010 and relatively equal to \$57.9 million in 2009.

	2011	2010	\$ Change 2011-2010	% Change 2011-2010	2009
<b>Assets</b>					
Cash and investments	\$ 36,447	\$ 36,462	\$ (15)	0.0%	\$ 33,602
Capital assets	39,341	41,086	(1,745)	-4.2%	42,447
Other assets	12,909	13,875	(966)	-7.0%	10,809
Total assets	<u>\$ 88,697</u>	<u>\$ 91,423</u>	<u>\$ (2,726)</u>	<u>-3.0%</u>	<u>\$ 86,858</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Current and other liabilities	\$ 11,043	\$ 10,924	\$ 119	1.1%	\$ 11,428
Long-term debt	19,807	23,332	(3,525)	-15.1%	17,577
Total liabilities	30,850	34,256	(3,406)	-9.9%	29,005
<b>Net Assets</b>					
General	57,176	56,537	639	1.1%	56,924
Restricted	671	630	41	6.5%	929
Total net assets	<u>57,847</u>	<u>57,167</u>	<u>680</u>	<u>1.2%</u>	<u>57,853</u>
Total liabilities and net assets	<u>\$ 88,697</u>	<u>\$ 91,423</u>	<u>\$ (2,726)</u>	<u>-3.0%</u>	<u>\$ 86,858</u>

# Berger Health System

## Management's Discussion and Analysis (Continued)

A summary of the System's statements of revenue, expenses, and changes in net assets for the years ended December 31, 2011, 2010, and 2009 is presented below (in thousands).

	2011	2010	\$ Change 2011-2010	% Change 2011-2010	2009
Revenue:					
Net patient revenue	\$ 76,342	\$ 74,783	\$ 1,559	2.1%	\$ 74,351
Other	2,517	2,913	(396)	-13.6%	2,822
Total revenue	78,859	77,696	1,163	1.5%	77,173
Expenses:					
Salaries and benefits	38,978	40,525	(1,547)	-3.8%	38,838
Supplies and other	32,828	31,699	1,129	3.6%	30,977
Depreciation	5,163	5,342	(179)	-3.4%	5,493
Total expenses	76,969	77,566	(597)	-0.8%	75,308
Gain from operations	1,890	130	1,760	1353.8%	1,865
Nonoperating expense	(1,250)	(518)	(732)	141.3%	(985)
Excess of revenue over (under) expenses	640	(388)	1,028	-264.9%	880
Change in restricted net assets	40	(298)	338	-113.4%	56
Total net assets - Beginning of year	57,167	57,853	(686)	-1.2%	56,917
Total net assets - End of year	<b>\$ 57,847</b>	<b>\$ 57,167</b>	<b>680</b>	<b>1.2%</b>	<b>\$ 57,853</b>

## Operating and Financial Performance

### Sources of Revenue

During 2011, 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 payor, for the years ended December 31, 2011, 2010, and 2009.

Payor	2011	2010	2009
Medicare	45.8%	45.3%	43.4%
Medicaid	16.7%	16.5%	15.8%
Commercial	29.3%	30.3%	33.2%
BWC	1.0%	1.0%	1.4%
Self-pay	7.0%	6.6%	6.0%
Other	0.2%	0.3%	0.2%

# Berger Health System

## Management's Discussion and Analysis (Continued)

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 payments.

The table above shows a payor mix shift during 2011 from Commercial towards Medicare/Medicaid/Self-pay. Because of the differences in reimbursement rates, the net impact was an estimated decrease of \$760,000 to net revenue.

### Revenue

Net operating revenue increased \$1.2M in 2011 primarily as a result of an overall rate adjustment put in place January 1, 2011 and increased outpatient registrations. Further discussion follows:

- Overall activity of the System, as measured by patient admissions adjusted for outpatient services, decreased to 9,448 in 2011 from 9,728 in 2010. This was a decrease of 2.9 percent. The variables described below contributed to the decrease in adjusted admissions.
  - Inpatient activity levels during 2011 decreased in terms of patient days and in terms of admissions, resulting in patient days and admissions of 9,958 and 2,709, 8.3 percent and 8.5 percent below 2010 levels.
  - Overall outpatient visits during 2011, including emergency and clinic visits, were 104,751, or 7 percent, above 2010 levels.
- During 2011, net receipts from the Health Care Assurance Program (HCAP) of \$906,000 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 and disbursements 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 \$5.3 million were waived during 2011. Management's commitment to provide care for all patients without regard to their ability to pay and the growing number of uninsured continues to contribute to these levels.

# Berger Health System

## Management's Discussion and Analysis (Continued)

### Expenses

Total operating expenses decreased by \$597,000 in 2011, which was attributed to management's focused efforts to monitor and control expenses. Further discussion follows:

- Salaries and wages decreased by \$561,000, or 1.9 percent, from FY 2010. Merit increases (between .5 percent and 2.0 percent) were awarded during the fourth quarter of the year. Targeted market adjustments were also awarded during the third quarter of the year. Adjustments in staffing levels were managed throughout the System. The hospital staffing level decreased when compared to 2009 and 2010.
- Benefits decreased by \$986,000 from FY 2010. The decrease was due primarily to a decrease in health insurance claims paid for employees and their dependents under the hospital's self-funded health insurance benefit.

### 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.

	2011	2010	Increase (Decrease)	2009
Cash provided by (used in):				
Operating activities	\$ 7,844,307	\$ 2,083,612	\$ 5,760,695	\$ 6,192,017
Financing activities	(7,614,729)	474,702	(8,089,431)	(6,647,167)
Investing activities	(682,174)	5,414,233	(6,096,407)	2,439,975
Net increase (decrease) in cash	(452,596)	7,972,547	(8,425,143)	1,984,825
Cash - Beginning of year	11,909,064	3,936,517	7,972,547	1,951,692
Cash - End of year	<u>\$ 11,456,468</u>	<u>\$ 11,909,064</u>	<u>\$ (452,596)</u>	<u>\$ 3,936,517</u>

The System's liquidity position decreased by \$453,000 from 2010 results. Listed below is an overview of the cash flows presented above.

- Cash generated by operations was \$7.8 million in 2011 (\$2.1 million in 2010).
- Cash used was \$3.4 million for fixed asset additions in 2011 (\$4.0 million in 2010). Debt payments in 2011 were \$3.2 million versus \$5.6 million in 2010 (due to refinancing).

In 2011, Berger Health System continued to utilize its financial strength to build infrastructure to ensure that healthcare is provided locally in the future. The healthcare infrastructure includes the purchase of additional capital assets, recruitment of new physicians, and development of an acute care venture in Circleville.

# Berger Health System

## Management's Discussion and Analysis (Continued)

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

### 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 2011 results are summarized below (in thousands):

	<u>Actual</u>	<u>Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Net patient revenue	\$ 76,342	\$ 77,720	\$ (1,378)	-1.8%
Other	<u>2,517</u>	<u>2,868</u>	<u>(351)</u>	-12.2%
Total revenue	78,859	80,588	(1,729)	-2.1%
Expenses:				
Salaries and benefits	38,978	40,201	(1,223)	-3.0%
Supplies and other	32,828	32,386	442	1.4%
Depreciation	<u>5,163</u>	<u>5,445</u>	<u>(282)</u>	-5.2%
Total expenses	<u>76,969</u>	<u>78,032</u>	<u>(1,063)</u>	-1.4%
Gain from operations	1,890	2,556	(666)	-26.1%
Nonoperating expense	<u>(1,250)</u>	<u>(1,272)</u>	<u>22</u>	-1.7%
Excess of revenue over expenses	<u><u>\$ 640</u></u>	<u><u>\$ 1,284</u></u>	<u><u>\$ (644)</u></u>	<u><u>-50.2%</u></u>

In comparing actual versus budgeted 2011 results, the following variances are noted:

- In 2011, the System's actual income from operations was \$666,000 below budget for the year. The major contributors to this variance are described below:
  - Net patient revenue was \$1.4 million less than budget.
  - Total operating expenses were under budget by \$1.1 million.
  - Employee compensation was under budget by \$1.2 million due to management's focus on maintaining staffing efficiencies.
  - Depreciation expense was under budget by \$282,000.
  - Supplies and other expenses were over budget by \$442,000.

# Berger Health System

## Management's Discussion and Analysis (Continued)

### Capital Assets

During 2011, the System invested \$3.4 million in a broad range of capital assets included in the table below (in thousands):

	2011	2010	\$ Change 2011-2010	% Change 2011-2010	2009
Land and land improvements	\$ 5,229	\$ 5,229	\$ -	0.0%	\$ 5,201
Buildings and fixed equipment	64,373	63,141	1,232	2.0%	61,092
Major moveable equipment	44,081	41,927	2,154	5.1%	40,256
Total capital assets	113,683	110,297	3,386	3.1%	106,549
Less accumulated depreciation	(74,668)	(69,533)	(5,135)	7.4%	(64,528)
Construction in progress	326	322	4	1.2%	426
Capital assets - Net	<u>\$ 39,341</u>	<u>\$ 41,086</u>	<u>\$ (1,745)</u>	<u>-4.2%</u>	<u>\$ 42,447</u>

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

- Purchase and installation of new IV Pumps
- Purchase and installation of a new ultrasound system
- Construction and opening of a new cardiac care unit

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.

The table below shows the System's 2012 capital budget with projected spending of \$3.9 million for capital projects. These projects will be financed from operations and reserves which include proceeds from debt issued in 2010.

Capital Budget	Amount (in thousands)
Portable Digital X-Ray Unit	\$ 205
Roof replacement - 1st floor	372
Emergency department renovation	600
Facilities improvements	973
Equipment improvements	1,800
Total	<u>\$ 3,950</u>

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

# **Berger Health System**

## **Management's Discussion and Analysis (Continued)**

### **Long-term Debt**

At year end, the System had \$23.3 million in short-term and long-term notes and bonds, a decrease from \$26.6 million at December 31, 2010. Principal payments on long-term debt in 2011 were approximately \$3.3 million. No new debt was issued in the current year. More detailed information about the System's long-term debt is presented in the notes to the financial statements.

### **Economic Factors and 2012 Budget**

The System's board and management considered many factors when setting the 2012 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
- Federal healthcare reform
- 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
- 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/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 Chief Financial Officer, David Paugh, at (740) 420-8404 or david.paugh@bergerhealth.com.



# Berger Health System

## Balance Sheet

	December 31, 2011		December 31, 2010	
	Hospital	Component Units	Hospital	Component Units
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,400,595	\$ 901,157	\$ 2,004,630	\$ 809,900
Restricted cash and cash equivalents	7,154,716	-	9,094,534	-
Short-term investments (Note 2)	20,454,639	222,871	17,140,745	175,122
Net patient accounts receivable (Note 3)	7,684,600	780,211	7,623,317	715,169
Estimated third-party payor settlements	641,470	-	1,244,991	-
Prepaid expenses and other	2,210,220	186,209	2,588,184	223,502
Inventory	1,313,791	-	1,359,266	-
Total current assets	42,860,031	2,090,448	41,055,667	1,923,693
<b>Long-term Investments</b> (Note 2)	3,556,904	756,290	6,597,398	639,791
<b>Property and Equipment</b> - Net (Note 4)	38,295,414	1,045,294	39,993,638	1,092,745
<b>Other Assets</b> - Bond issue costs	92,914	-	120,235	-
Total assets	<u>\$ 84,805,263</u>	<u>\$ 3,892,032</u>	<u>\$ 87,766,938</u>	<u>\$ 3,656,229</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt (Note 5)	\$ 3,524,417	\$ -	\$ 3,246,417	\$ -
Accounts payable	2,503,411	469,829	3,225,353	276,516
Accrued liabilities and other:				
Accrued compensation and related accruals	2,479,968	587,957	2,125,385	539,093
Accrued compensated absences (Note 5)	632,142	106,899	645,212	110,475
Total current liabilities	9,139,938	1,164,685	9,242,367	926,084
<b>Long-term Debt</b> - Net of current portion (Note 5)	19,806,583	-	23,331,833	-
<b>Other Liabilities</b> - Accrued compensated absences - Net of current portion (Note 5)	632,142	106,900	645,212	110,475
Total liabilities	29,578,663	1,271,585	33,219,412	1,036,559
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	22,029,130	1,045,294	22,419,922	1,092,745
Restricted - Expendable for capital improvements, debt service, and other purposes	53,077	617,893	25,906	604,618
Unrestricted	33,144,393	957,260	32,101,698	922,307
Total net assets	55,226,600	2,620,447	54,547,526	2,619,670
Total liabilities and net assets	<u>\$ 84,805,263</u>	<u>\$ 3,892,032</u>	<u>\$ 87,766,938</u>	<u>\$ 3,656,229</u>

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, 2011		December 31, 2010	
	Hospital	Component Units	Hospital	Component Units
<b>Operating Revenue</b>				
Net patient service revenue	\$ 69,005,257	\$ 7,336,892	\$ 68,442,745	\$ 6,339,768
Other	1,651,784	865,184	1,666,236	1,247,470
Total operating revenue	70,657,041	8,202,076	70,108,981	7,587,238
<b>Operating Expenses</b>				
Salaries and wages	22,222,691	7,360,498	22,911,792	7,232,472
Employee benefits and payroll taxes	8,006,762	1,388,271	9,091,344	1,289,517
Operating supplies and other	19,380,512	1,751,691	19,418,323	1,661,792
Professional services and consultant fees	3,542,718	6,848	3,342,716	2,940
Purchased services	5,250,840	1,419,596	4,646,261	1,242,609
Insurance	512,543	292,253	564,919	157,588
Depreciation and amortization	5,022,002	141,224	5,257,877	83,853
State hospital tax	671,239	-	661,450	-
Total operating expenses	64,609,307	12,360,381	65,894,682	11,670,771
<b>Operating Income (Loss)</b>	6,047,734	(4,158,305)	4,214,299	(4,083,533)
<b>Other Income (Expenses)</b>				
Interest income	132,512	70,220	98,578	218,298
Gain on sale of property	8,700	-	204,774	-
Contributions	177,172	-	673,523	-
Interest expense	(1,005,498)	-	(861,187)	-
Other expense	(505,537)	(127,593)	(508,869)	(343,543)
Total other expenses	(1,192,651)	(57,373)	(393,181)	(125,245)
<b>Excess of Revenue Over (Under) Expenses</b>	4,855,083	(4,215,678)	3,821,118	(4,208,778)
<b>Contribution (to) from Component Units</b>	(4,203,180)	4,203,180	(5,163,137)	5,163,137
<b>Contributions (Expenditures) of Restricted Assets</b>	27,171	13,275	(862)	(297,193)
<b>Increase (Decrease) in Net Assets</b>	679,074	777	(1,342,881)	657,166
<b>Net Assets - Beginning of year</b>	54,547,526	2,619,670	55,890,407	1,962,504
<b>Net Assets - End of year</b>	<b>\$ 55,226,600</b>	<b>\$ 2,620,447</b>	<b>\$ 54,547,526</b>	<b>\$ 2,619,670</b>

# Berger Health System

## Statement of Cash Flows

	Year Ended			
	December 31, 2011		December 31, 2010	
	Hospital	Component Units	Hospital	Component Units
<b>Cash Flows from Operating Activities</b>				
Cash received from patients and third-party payors	\$ 68,956,171	\$ 7,271,850	\$ 67,766,942	\$ 6,308,637
Cash payments to suppliers for services and goods	(29,065,030)	(3,239,782)	(30,971,634)	(2,989,892)
Cash payments to employees and for professional services	(29,888,814)	(8,707,056)	(32,325,396)	(8,618,751)
Other operating revenue received	1,651,784	865,184	1,666,236	1,247,470
Net cash provided by (used in) operating activities	11,654,111	(3,809,804)	6,136,148	(4,052,536)
<b>Cash Flow from Noncapital Financing Activities - Contributions (to) from component units</b>				
	(4,203,180)	4,203,180	(5,163,137)	5,163,137
<b>Cash Flows from Investing Activities</b>				
Cash received from (used in) investments	58,725,059	(164,248)	22,382,983	524,296
Cash paid for investments	(58,998,459)	-	(17,794,875)	-
Interest income and other	(187,153)	(57,373)	427,074	(125,245)
Net cash (used in) provided by investing activities	(460,553)	(221,621)	5,015,182	399,051
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of debt obligations	-	-	24,783,000	-
Payments on capital lease obligations	-	-	(1,430,746)	-
Purchase of capital assets	(3,296,458)	(93,773)	(3,348,138)	(647,405)
Repayment of long-term debt	(3,247,250)	-	(17,744,001)	-
Other capital-related contributions	27,171	13,275	(862)	(297,193)
Cash paid for interest	(1,017,694)	-	(839,953)	-
Net cash (used in) provided by capital and related financing activities	(7,534,231)	(80,498)	1,419,300	(944,598)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(543,853)	91,257	7,407,493	565,054
<b>Cash and Cash Equivalents - Beginning of year</b>	11,099,164	809,900	3,691,671	244,846
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 10,555,311</b>	<b>\$ 901,157</b>	<b>\$11,099,164</b>	<b>\$ 809,900</b>

For the Hospital, cash and cash equivalents are comprised of cash and cash equivalents and restricted cash and cash equivalents in the amounts of \$3,400,595 and \$7,154,716, respectively, in 2011 and \$2,004,630 and \$9,094,534, respectively, in 2010.

# 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, 2011		December 31, 2010	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 6,047,734	\$ (4,158,305)	\$ 4,214,299	\$ (4,083,533)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	5,002,002	141,224	5,257,877	83,853
Provision for bad debts	4,894,346	433,310	4,341,959	283,576
Changes in assets and liabilities:				
Net patient accounts receivable	(4,955,629)	(498,352)	(4,356,795)	(314,707)
Inventories and other assets	455,636	37,293	(1,635,843)	(83,150)
Accounts payable and accrued liabilities	(393,499)	235,026	(157,504)	61,425
Estimated third-party settlements	603,521	-	(1,527,845)	-
Net cash provided by (used in) operating activities	<u>\$ 11,654,111</u>	<u>\$ (3,809,804)</u>	<u>\$ 6,136,148</u>	<u>\$ (4,052,536)</u>

# Berger Health System

## Component Units - Combining Balance Sheet December 31, 2011

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ -	\$ 15,916	\$ 885,241	\$ 901,157
Short-term investments	-	-	222,871	222,871
Net patient accounts receivable	678,938	101,273	-	780,211
Prepaid expenses and other	-	5,969	180,240	186,209
Total current assets	678,938	123,158	1,288,352	2,090,448
<b>Long-term Investments</b>	205,198	-	551,092	756,290
<b>Property and Equipment - Net</b>	659,327	-	385,967	1,045,294
Total assets	<u>\$ 1,543,463</u>	<u>\$ 123,158</u>	<u>\$ 2,225,411</u>	<u>\$ 3,892,032</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 192,387	\$ 15,017	\$ 262,425	\$ 469,829
Accrued liabilities and other:				
Accrued compensation and related accruals	488,378	91,157	8,422	587,957
Accrued compensated absences	82,033	19,938	4,928	106,899
Total current liabilities	762,798	126,112	275,775	1,164,685
<b>Other Liabilities - Accrued compensated absences - Net of current portion</b>	82,033	19,939	4,928	106,900
Total liabilities	844,831	146,051	280,703	1,271,585
<b>Net Assets (Deficit)</b>				
Invested in capital assets	659,327	-	385,967	1,045,294
Restricted - Expendable for capital improvements	-	-	617,893	617,893
Unrestricted	39,305	(22,893)	940,848	957,260
Total net assets (deficit)	698,632	(22,893)	1,944,708	2,620,447
Total liabilities and net assets (deficit)	<u>\$ 1,543,463</u>	<u>\$ 123,158</u>	<u>\$ 2,225,411</u>	<u>\$ 3,892,032</u>

# Berger Health System

## Component Units - Combining Balance Sheet December 31, 2010

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ -	\$ 15,013	\$ 794,887	\$ 809,900
Short-term investments	-	-	175,122	175,122
Net patient accounts receivable	606,278	108,891	-	715,169
Prepaid expenses and other	109,714	6,811	106,977	223,502
Total current assets	715,992	130,715	1,076,986	1,923,693
<b>Long-term Investments</b>	200,130	-	439,661	639,791
<b>Property and Equipment - Net</b>	706,778	-	385,967	1,092,745
Total assets	<u>\$ 1,622,900</u>	<u>\$ 130,715</u>	<u>\$ 1,902,614</u>	<u>\$ 3,656,229</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 213,274	\$ 10,445	\$ 52,797	\$ 276,516
Accrued liabilities and other:				
Accrued compensation and related accruals	460,548	70,507	8,038	539,093
Accrued compensated absences	85,827	20,924	3,724	110,475
Total current liabilities	759,649	101,876	64,559	926,084
<b>Other Liabilities - Accrued compensated absences - Net of current portion</b>	85,826	20,925	3,724	110,475
Total liabilities	845,475	122,801	68,283	1,036,559
<b>Net Assets</b>				
Invested in capital assets	706,778	-	385,967	1,092,745
Restricted - Expendable for capital improvements	-	-	604,618	604,618
Unrestricted	70,647	7,914	843,746	922,307
Total net assets	777,425	7,914	1,834,331	2,619,670
Total liabilities and net assets	<u>\$ 1,622,900</u>	<u>\$ 130,715</u>	<u>\$ 1,902,614</u>	<u>\$ 3,656,229</u>

# Berger Health System

## Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2011

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Operating Revenue</b>				
Net patient service revenue	\$ 6,375,045	\$ 961,847	\$ -	\$ 7,336,892
Other	77,956	346,138	441,090	865,184
Total operating revenue	6,453,001	1,307,985	441,090	8,202,076
<b>Operating Expenses</b>				
Salaries and wages	6,111,450	1,110,598	138,450	7,360,498
Employee benefits and payroll taxes	1,072,551	299,855	15,865	1,388,271
Operating supplies and other	1,672,508	64,637	14,546	1,751,691
Professional services and consultant fees	6,848	-	-	6,848
Purchased services	1,165,852	136,904	116,840	1,419,596
Insurance	292,253	-	-	292,253
Depreciation and amortization	141,224	-	-	141,224
Total operating expenses	10,462,686	1,611,994	285,701	12,360,381
<b>Operating (Loss) Income</b>	(4,009,685)	(304,009)	155,389	(4,158,305)
<b>Other Income (Expenses)</b>				
Interest income	-	7	70,213	70,220
Other expense	-	-	(127,593)	(127,593)
Total other income (expenses)	-	7	(57,380)	(57,373)
<b>Excess of Revenue (Under) Over Expenses</b>	(4,009,685)	(304,002)	98,009	(4,215,678)
<b>Contribution from (to) Hospital</b>	3,930,892	273,195	(907)	4,203,180
<b>Contribution of Restricted Assets</b>	-	-	13,275	13,275
<b>(Decrease) Increase in Net Assets</b>	(78,793)	(30,807)	110,377	777
<b>Net Assets - Beginning of year</b>	777,425	7,914	1,834,331	2,619,670
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 698,632</b>	<b>\$ (22,893)</b>	<b>\$ 1,944,708</b>	<b>\$ 2,620,447</b>

# Berger Health System

## Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2010

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Operating Revenue</b>				
Net patient service revenue	\$ 5,400,508	\$ 939,260	\$ -	\$ 6,339,768
Other	352,727	433,039	461,704	1,247,470
Total operating revenue	5,753,235	1,372,299	461,704	7,587,238
<b>Operating Expenses</b>				
Salaries and wages	5,918,883	1,185,551	128,038	7,232,472
Employee benefits and payroll taxes	948,121	326,603	14,793	1,289,517
Operating supplies and other	1,568,617	77,096	16,079	1,661,792
Professional services and consultant fees	2,940	-	-	2,940
Purchased services	1,120,045	81,837	40,727	1,242,609
Insurance	157,588	-	-	157,588
Depreciation and amortization	83,853	-	-	83,853
Total operating expenses	9,800,047	1,671,087	199,637	11,670,771
<b>Operating (Loss) Income</b>	(4,046,812)	(298,788)	262,067	(4,083,533)
<b>Other Income (Expenses)</b>				
Interest income	-	31	218,267	218,298
Other expense	-	-	(343,543)	(343,543)
Total other income (expenses)	-	31	(125,276)	(125,245)
<b>Excess of Expenses (Under) Over Revenue</b>	(4,046,812)	(298,757)	136,791	(4,208,778)
<b>Contribution From Hospital</b>	4,686,296	345,846	130,995	5,163,137
<b>Contributions of Restricted Assets</b>	-	-	(297,193)	(297,193)
<b>Increase (Decrease) in Net Assets</b>	639,484	47,089	(29,407)	657,166
<b>Net Assets (Deficit) - Beginning of year</b>	137,941	(39,175)	1,863,738	1,962,504
<b>Net Assets - End of year</b>	<b>\$ 777,425</b>	<b>\$ 7,914</b>	<b>\$ 1,834,331</b>	<b>\$ 2,619,670</b>



# Berger Health System

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## Notes to Financial Statements December 31, 2011 and 2010

### 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 and related entities 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 the City Council. The mayor of the City of Circleville, by virtue of his or her position, is the chairperson of the board of governors. The Hospital is considered a political subdivision of a state and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code.

#### **Discretely Presented Component Units**

Pickaway Health Services (PHS) provides healthcare 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. PPS is a corporation which was formed under Chapter 1785 of the Ohio Revised Code on October 25, 2005.

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

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

The accompanying basic financial statements include the accounts of Berger Hospital (the "Hospital"), 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. Separate financial statements for the component units are not available.

# Berger Health System

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## Notes to Financial Statements December 31, 2011 and 2010

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

**Basis of Presentation** - The financial statements include the accounts of Berger Hospital and its component units, Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The System follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the System's financial activities. The System has elected not to apply the provisions of any relevant pronouncements of the Accounting Standards Codification (ASC) issued after November 30, 1989.

**Proprietary Fund Accounting** - The System utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

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

**Restricted Cash and Cash Equivalents** - Restricted cash and cash equivalents include assets designated for future debt payments, bond proceeds held for future capital acquisitions, or purchase of equipment under capital lease obligations. Bond proceeds held for future capital acquisitions classified as restricted cash and cash equivalents totaled approximately \$7,064,000 and \$9,005,000 at December 31, 2011 and 2010, respectively.

**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 and unrealized gains and losses on investments, interest, and dividends) is included in other income when earned.

**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.

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

**Inventories** - Inventories, which consist of medical and office supplies, surgical supplies, and pharmaceutical products, are stated at the lower of cost or market, determined on a first-in, first-out basis.

**Property and Equipment** - Property and equipment are stated at cost or, if donated, at fair value at the date of receipt. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives (primarily 3 to 40 years) of the assets. Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

**Compensated Absences** - Paid time off is charged to operations when earned. Unused and earned benefits are classified as current and long-term liabilities in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. 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.

**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 1 - 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 with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Ohio hospitals in 2010. The Hospital has been audited during 2011 and the net outcome was not significant to the consolidated financial statements. If selected for further audits, the potential exists for significant overpayment or underpayment of claims.

**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 healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income (loss).

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

**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 is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenues received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charge to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total operating expenses divided by gross patient service revenue. The Hospital estimates that it provided approximately \$2,113,000 and \$2,631,000 of services to indigent patients during 2011 and 2010, 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.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including April 11, 2012, which is the date the financial statements were issued.

### **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 or federal government agencies. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the Auditor of State, by the treasurer, or governing board investing in these instruments.

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

### Note 2 - Deposits and Investments (Continued)

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.

**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

### Note 2 - Deposits and Investments (Continued)

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.

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. The System had approximately \$11,959,000 and \$12,048,000 as of December 31, 2011 and 2010, respectively, 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.

The following tables present the System's total holdings in U.S. agency bonds and the Star Ohio fund and the associated risks. The Hospital's investment in U.S. agency bonds totaled approximately \$22,391,000 and \$22,331,000 and the Component Units' investment in U.S. agency bonds totaled approximately \$427,000 and \$426,000 as of December 31, 2011 and 2010, respectively. The Hospital's investment in the Star Ohio fund was \$258,000 as of December 31, 2011 and 2010.

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### Note 2 - Deposits and Investments (Continued)

#### 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
December 31, 2011:		
U.S. agency bonds	\$ 22,818,000	Counterparty
STAR Ohio	258,000	Hospital's name
December 31, 2010:		
U.S. agency bonds	22,757,000	Counterparty
STAR Ohio	258,000	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
December 31, 2011:		
U.S. agency bonds	\$ 22,818,000	0.72 years
STAR Ohio	258,000	0.00 years
December 31, 2010:		
U.S. agency bonds	22,757,000	0.63 years
STAR Ohio	258,000	0.00 years



# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### 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:

Investment	Fair Value	Rating	Rating Organization
December 31, 2011:			
U.S. agency bonds	\$ 22,818,000	AA+	Standard & Poor's
STAR Ohio	258,000	AAA	Standard & Poor's
December 31, 2010:			
U.S. agency bonds	22,757,000	AAA	Standard & Poor's
STAR Ohio	258,000	AAA	Standard & Poor's

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	Hospital	
	2011	2010
Patient accounts receivable	\$ 16,706,600	\$ 16,011,317
Less allowance for uncollectible accounts	(2,652,000)	(2,188,000)
Less allowance for contractual adjustments	(6,370,000)	(6,200,000)
Net patient accounts receivable	<u>\$ 7,684,600</u>	<u>\$ 7,623,317</u>
	Component Units	
	2011	2010
Patient accounts receivable	\$ 1,230,211	\$ 1,345,169
Less allowance for uncollectible accounts	(60,000)	(90,000)
Less allowance for contractual adjustments	(390,000)	(540,000)
Net patient accounts receivable	<u>\$ 780,211</u>	<u>\$ 715,169</u>

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### 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 net receivables from patients and third-party payors was as follows:

	Percentage	
	2011	2010
Medicare	19%	22%
Medicaid	7	7
Commercial insurance and HMOs	44	44
Self-pay	30	27
Total	100%	100%

### Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for the Hospital for December 31, 2011 are summarized below:

	2010	Additions	Transfers	Retirements	2011
Land	\$ 3,238,880	\$ -	\$ -	\$ -	\$ 3,238,880
Land improvements	1,604,282	300	(300)	-	1,604,282
Buildings	35,849,178	9,210	6,319	-	35,864,707
Building improvements	20,922,933	271,520	841,775	-	22,036,228
Equipment	47,185,831	1,821,376	307,306	-	49,314,513
Construction in progress	320,569	1,194,052	(1,155,100)	-	359,521
Total	109,121,673	3,296,458	-	-	112,418,131
Accumulated depreciation:					
Land improvements	1,579,419	74,793	-	-	1,654,212
Buildings	16,409,200	1,424,635	-	-	17,833,835
Building improvements	12,364,849	1,140,751	-	-	13,505,600
Equipment	38,774,567	2,354,503	-	-	41,129,070
Total	69,128,035	4,994,682	-	-	74,122,717
Net carrying amount	\$ 39,993,638	\$ (1,698,224)	\$ -	\$ -	\$ 38,295,414

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### Note 4 - Property and Equipment (Continued)

The cost of capital assets and related depreciable lives for the Hospital for December 31, 2010 are summarized below:

	<u>2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2010</u>
Land	\$ 3,210,610	\$ 28,270	\$ -	\$ -	\$ 3,238,880
Land improvements	1,604,282	-	-	-	1,604,282
Buildings	35,768,633	91,748	(11,203)	-	35,849,178
Building improvements	18,964,284	79,946	1,878,703	-	20,922,933
Equipment	46,118,101	2,667,048	(1,280,689)	(318,629)	47,185,831
Construction in progress	426,254	481,126	(586,811)	-	320,569
Total	<u>106,092,164</u>	<u>3,348,138</u>	<u>-</u>	<u>(318,629)</u>	<u>109,121,673</u>
Accumulated depreciation:					
Land improvements	1,379,041	200,378	-	-	1,579,419
Buildings	14,966,783	1,442,417	-	-	16,409,200
Building improvements	11,374,176	990,673	-	-	12,364,849
Equipment	36,453,988	2,604,228	-	(283,649)	38,774,567
Total	<u>64,173,988</u>	<u>5,237,696</u>	<u>-</u>	<u>(283,649)</u>	<u>69,128,035</u>
Net carrying amount	<u>\$ 41,918,176</u>	<u>\$ (1,889,558)</u>	<u>\$ -</u>	<u>\$ (34,980)</u>	<u>\$ 39,993,638</u>

Capital asset activity for the component units for the years ended December 31, 2011 and 2010 included approximately \$94,000 and \$647,000 of additions and \$141,000 and \$84,000 of depreciation, respectively.

Depreciation and amortization expense on capital assets (excluding bond issue costs) for the Hospital and component units for the years ended December 31, 2011 and 2010 totaled approximately \$5,136,000 and \$5,322,000, respectively.

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### Note 5 - Long-term Liabilities

Long-term liability activity for the year ended December 31, 2011 for both the Hospital and component units was as follows:

	2010	Current Year Additions	Current Year Reductions	2011	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 3.8 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 926,250	\$ -	\$ (116,250)	\$ 810,000	\$ 120,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing in September 2012)	1,167,000	-	(664,000)	503,000	503,000
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing December 2017)	12,242,500	-	(1,233,500)	11,009,000	1,450,500
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010B (maturing December 2017)	12,242,500	-	(1,233,500)	11,009,000	1,450,500
Total long-term debt	26,578,250	-	(3,247,250)	23,331,000	3,524,417
Compensated absences - Hospital	1,290,424	1,960,941	(1,987,081)	1,264,284	632,142
Compensated absences - Component units	220,950	751,009	(758,160)	213,799	106,899
Total other liabilities	1,511,374	2,711,950	(2,745,241)	1,478,083	739,041
Total long-term debt and other liabilities	<u>\$ 28,089,624</u>	<u>\$ 2,711,950</u>	<u>\$ (5,992,491)</u>	<u>\$ 24,809,083</u>	<u>\$ 4,263,458</u>

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### Note 5 - Long-term Liabilities (Continued)

Long-term liability activity for the year ended December 31, 2010 for both the Hospital and component units was as follows:

	2009	Current Year Additions	Current Year Reductions	2010	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	\$ 1,031,251	\$ -	\$ (105,001)	\$ 926,250	\$ 115,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing in September 2013)	8,000,000	-	(8,000,000)	-	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007A (maturing in September 2014)	7,574,000	-	(7,574,000)	-	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing in September 2012)	1,831,000	-	(664,000)	1,167,000	664,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2008A (maturing in December 2014)	1,103,000	-	(1,103,000)	-	-
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing December 2017)	-	12,391,500	(149,000)	12,242,500	1,233,500
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010B (maturing December 2017)	-	12,391,500	(149,000)	12,242,500	1,233,500
Chase equipment lease collateralized by the equipment purchased (maturing in August 2010)	1,430,746	-	(1,430,746)	-	-
Total long-term debt	20,969,997	24,783,000	(19,174,747)	26,578,250	3,246,417
Compensated absences - Hospital	1,300,717	2,084,604	(2,094,897)	1,290,424	645,212
Compensated absences - Component units	244,122	731,646	(754,818)	220,950	110,475
Total other liabilities	1,544,839	2,816,250	(2,849,715)	1,511,374	755,687
Total long-term debt and other liabilities	<u>\$ 22,514,836</u>	<u>\$ 27,599,250</u>	<u>\$(22,024,462)</u>	<u>\$ 28,089,624</u>	<u>\$ 4,002,104</u>

On September 1, 2003, the System entered into a financing agreement with 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. During 2006, the System refinanced the Series 2003B Bonds to change the maturity of the instrument. In November 2010, the System retired the remaining outstanding debt with proceeds from the Series 2010 Hospital Facilities Revenue Bonds.

### Note 5 - Long-term Liabilities (Continued)

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued \$9,950,000 of Hospital Facilities Revenue Bonds (Series 2007A Bonds). The proceeds were used to retire prior obligations and to fund operations. The Series 2007A Bonds mature in quarterly principal installments ranging from \$264,000 in December 2007 to \$2,558,000 in September 2014 at a rate of 3.85 percent. In November 2010, the System retired the remaining outstanding debt with proceeds from the Series 2010 Hospital Facilities Revenue Bonds.

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued \$3,325,000 of Hospital Facilities Revenue Bonds (Series 2007B Bonds). The proceeds were used to retire prior obligations and to fund operations. The Series 2007B Bonds mature in quarterly principal installments ranging from \$166,000 in March 2010 to \$171,000 in September 2012 at a rate of 5.95 percent.

On November 1, 2007, the System entered into a financing agreement with the City, in which the City issued \$1,375,000 of Hospital Facilities Revenue Bonds (Series 2008A Bonds). The proceeds were used to fund operations. The Series 2008A Bonds mature in quarterly principal installments of \$34,000 from March 2008 to December 2014 at a rate of 3.85 percent. In November 2010, the System retired the remaining outstanding debt with proceeds from the Series 2010 Hospital Facilities Revenue Bonds.

On November 1, 2010, the System entered into a financing agreement with the City, in which the City issued \$12,391,500 of Hospital Facilities Revenue Bonds (Series 2010A Bonds). The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2010A Bonds mature in quarterly principal installments ranging from \$296,000 in March 2011 to \$527,000 in December 2017 at a rate of 3.87 percent from years 2011-2015 and an option of either a variable or fixed rate during 2016 and 2017.

On November 1, 2010, the System entered into a financing agreement with the City, in which the City issued \$12,391,500 of Hospital Facilities Revenue Bonds (Series 2010B Bonds). The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2010B Bonds mature in quarterly principal installments ranging from \$296,000 in March 2011 to \$527,000 in December 2017 at a rate of 3.87 percent from years 2011-2015 and an option of either a variable or fixed rate during 2016 and 2017.

In conjunction with the Series 2007B, Series 2010A, and Series 2010B 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 2007B, Series 2010A, and Series 2010B Bonds are collateralized by the System's revenue and receipts, capital assets, and unexpended bond proceeds and income from bond fund-related investments of which there is \$7,064,716 outstanding as of December 31, 2011.

# Berger Health System

## Notes to Financial Statements December 31, 2011 and 2010

### Note 5 - Long-term Liabilities (Continued)

The following is a schedule by years of loans and bond principal and interest as of December 31, 2011:

Years Ending December 31	Long-term Debt	
	Principal	Interest
2012	\$ 3,524,417	\$ 871,656
2013	3,664,833	726,127
2014	3,812,417	580,359
2015	3,953,417	428,803
2016	4,107,833	280,118
2017	4,268,083	111,472
Total	<u>\$ 23,331,000</u>	<u>\$ 2,998,535</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 additional coverage limits.

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

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

The System is exposed to various risks of loss related to property and general losses, as well as coverage for medical benefits provided to employees. The System has purchased commercial insurance coverage or excess coverage for 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 maintains a cost-sharing multiple employer defined benefit postemployment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare 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 614-222-5601 or 1-800-222-PERS (7377).

**Funding Policy** - The Ohio Revised Code provides statutory authority for member and employer contributions. The 2011, 2010, and 2009 member contribution rates for members of local government units was 10.00 percent of their annual covered salary. The 2011, 2010, and 2009 employer contribution rate for local government units was 14.00 percent. The Hospital's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were approximately \$3,091,000, \$3,168,000, and \$3,151,000, 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 postemployment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB), as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2011, 2010, and 2009, state and local employers contributed at a rate of 14.00 percent for each year of covered payroll. The portion of employer contributions allocated to health care was 4.00 percent during 2011, 5.50 percent from January 1 through February 28, 2010 and 5.00 percent from March 1 through December 31, 2010, and 7.00 percent for January 1 through March 31, 2009 and 5.50 percent for April 1 through December 31, 2009, respectively. The portion of the employer's contribution used to fund postemployment benefits for 2011, 2010, and 2009 was \$883,000, \$1,329,000, and \$1,322,000, respectively.



### Note 7 - Defined Benefit Pension Plan (Continued)

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

**Healthcare Plan** - The Health Care Preservation Plan (HCPP), adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased January 1 of each year from 2006-2008. Rates for law and public safety employers increased over a six-year period beginning January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the healthcare plan.

### Note 8 - Cost Report Settlements

Approximately 43 percent of the System's net revenue from patient services is 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 prospectively determined rates or 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.

# Berger Health System

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## Notes to Financial Statements December 31, 2011 and 2010

### **Note 8 - Cost Report Settlements (Continued)**

The System has also 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.

### **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 \$125,000 per employee. Claims, charged to operations and paid when incurred, were approximately \$4,600,000 and \$4,900,000 for the years ended December 31, 2011 and 2010, respectively.

**Report 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***

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Report 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 business-type activities of Berger Health System and the aggregate discretely presented component units as of and for the year ended December 31, 2011, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 11, 2012. 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 in accordance with auditing standards generally accepted in the United States of America, we considered the 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined below.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Governors  
Berger Health System

### **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 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*.

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

*Plante & Moran, PLLC*

April 11, 2012



# Dave Yost • Auditor of State

**BERGER HEALTH SYSTEM**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 03, 2012**