

Consolidated Financial Statements and Other Financial Information

Berger Health System

*Years ended December 31, 2000 and 1999 with Report of Independent Auditors*





**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

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Board of Governors  
Berger Health System

We have reviewed the Independent Auditor's Report of the Berger Health System, Pickaway County, prepared by Ernst & Young LLP, for the audit period January 1, 2000 to December 31, 2000. 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.

JIM PETRO  
Auditor of State

July 31, 2001

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# Berger Health System

## Consolidated Financial Statements and Other Financial Information

Years ended December 31, 2000 and 1999

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## Report of Independent Auditors

Board of Governors  
Berger Health System

We have audited the accompanying consolidated balance sheets of Berger Health System (the System), a component unit of the City of Circleville, as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berger Health System at December 31, 2000 and 1999, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated May 4, 2001 on our consideration of Berger Health System's internal control over financial reporting and our tests of its compliance with laws certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our report.

*Ernst + Young LLP*

May 4, 2001

Berger Health System  
Consolidated Balance Sheets

	December 31	
	2000	1999
<b>Assets</b>		
General funds:		
Current assets:		
Cash and cash equivalents	\$ 1,463,342	\$ 2,682,725
Investments <i>(Note 3)</i>	4,240,885	3,662,156
Patient accounts receivable, less allowance for doubtful accounts (2000—\$6,780,000; 1999—\$4,700,000)	7,960,272	6,495,905
Estimated Medicare and Medicaid third-party settlements <i>(Note 4)</i>	-	495,720
Inventories	822,823	752,224
Prepaid expenses and other assets	369,553	235,545
Total current assets	14,856,875	14,324,275
Assets whose use is limited <i>(Note 3)</i>	4,596,459	5,283,026
Property and equipment, net <i>(Note 6)</i>	30,145,812	29,836,273
Investment in CHO <i>(Note 1)</i>	-	67,218
Goodwill	66,787	99,387
Other assets	261,468	141,295
Total general funds	\$ 49,927,401	\$ 49,751,474
Restricted funds:		
Cash and cash equivalents <i>(Note 3)</i>	416,439	253,266
Total restricted funds	\$ 416,439	\$ 253,266



	<b>December 31</b>	
	<b>2000</b>	<b>1999</b>
<b>Liabilities and fund balances</b>		
General funds:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,060,548	\$ 2,535,643
Accrued payroll and related liabilities	2,171,857	1,619,816
Estimated Medicare and Medicaid third-party settlements <i>(Note 4)</i>	187,192	-
Accrued CHO operating losses <i>(Note 1)</i>	-	546,591
Accrued CHO contract losses <i>(Note 1)</i>	-	550,000
Current portion of long-term debt <i>(Note 5)</i>	70,000	70,000
Total current liabilities	5,489,597	5,322,050
Long-term debt, less current portion <i>(Note 5)</i>	1,724,167	1,794,167
General fund balance	42,713,637	42,635,257
Total general funds	\$ 49,927,401	\$ 49,751,474
Restricted funds:		
Fund balance	416,439	253,266
Total restricted funds	\$ 416,439	\$ 253,266

*See accompanying notes.*

Berger Health System  
Consolidated Statements of Operations

	Year ended December 31	
	2000	1999
Revenue:		
Net patient service revenue ( <i>Note 2</i> )	\$ 41,763,508	\$ 37,434,830
Premium revenue	564,022	771,731
Other revenue	720,250	1,007,156
Total revenue	43,047,780	39,213,717
Expenses:		
Wages and salaries	14,386,360	13,340,205
Benefits	2,758,116	2,798,037
Supplies and other	9,737,320	8,719,157
Purchased services	4,675,070	3,421,269
Provision for bad debts	7,781,362	6,026,069
Professional fees	1,154,075	1,055,807
Insurance	384,739	517,191
Depreciation and amortization	2,770,155	2,596,195
Interest expense	84,954	95,277
Total expenses	43,732,151	38,569,206
 (Loss) gain from operations before gain (loss) from CHO	 (684,371)	 644,511
Gain (loss) from CHO:		
CHO operating gain (loss) ( <i>Note 1</i> )	140,298	(1,075,830)
CHO contract loss ( <i>Note 1</i> )	-	(550,000)
	140,298	(1,625,830)
 Loss from operations	 (544,073)	 (981,319)
Nonoperating gains (losses):		
Investment income ( <i>Note 3</i> )	656,198	559,319
Gain (write-down) on investment in CHO ( <i>Note 1</i> )	4,796	(247,803)
Other	(38,541)	(3,154)
	622,453	308,362
 Excess of revenues and gains over expenses (expenses over revenues and gains)	 \$ 78,380	 \$ (672,957)

*See accompanying notes.*

## Berger Health System

### Consolidated Statements of Changes in Fund Balances

	Year ended December 31			
	2000		1999	
	General	Donor Restricted	General	Donor Restricted
Fund balance—beginning of year	\$ 42,635,257	\$ 253,266	\$ 43,291,854	\$ 319,015
Excess of revenues and gains over expenses (expenses over revenues and gains)	78,380	-	(672,957)	-
Investment income	-	1,897	-	2,923
Gifts, grants, and bequests	-	255,386	-	152,315
Assets released from restriction for operations	-	(94,110)	-	(220,987)
Other	-	-	16,360	-
Fund balance—end of year	<u>\$ 42,713,637</u>	<u>\$ 416,439</u>	<u>\$ 42,635,257</u>	<u>\$ 253,266</u>

*See accompanying notes.*

Berger Health System

Consolidated Statements of Cash Flows - Restricted and Unrestricted Funds

	<b>Year ended December 31</b>	
	<b>2000</b>	<b>1999</b>
<b>Operating activities</b>		
Excess of revenues and gains over expenses (expenses over revenues and gains)	\$ 78,380	\$ (672,957)
Adjustments to reconcile excess of revenues and gains over expenses (expenses over revenues and gains) to net cash provided by operating activities:		
Depreciation and amortization	2,770,155	2,596,195
Net change in unrealized (gains) losses on investments	(79,262)	145,908
Write-off of investment in CHO	-	247,803
Cash provided by (used for) certain operating assets and liabilities:		
Patient accounts receivable, net	(1,464,367)	648,711
Inventories	(70,599)	(166,253)
Prepaid expenses and other assets	(134,008)	(80,295)
Accounts payable and accrued expenses	524,905	192,929
Accrued payroll and related liabilities	552,041	94,901
Accrued CHO operating losses	(546,591)	228,409
Accrued CHO contract losses	(550,000)	550,000
Estimated Medicare and Medicaid third-party settlements	682,912	(470,097)
Other assets	(120,173)	54,824
Net cash provided by operating activities	1,643,393	3,370,078
<b>Investing activities</b>		
Increase in current investments	(578,729)	(1,162,156)
Capital contributions from (to) CHO	67,218	(21,053)
Decrease in assets whose use is limited--net	765,829	4,690,862
Net cash provided by investing activities	254,318	3,507,653
<b>Capital and related financing activities</b>		
Repayment of long-term debt	(70,000)	(65,416)
Acquisition of property and equipment, net	(3,047,094)	(4,861,343)
Net cash used in capital and related financing activities	(3,117,094)	(4,926,759)
<b>Noncapital and related financing activities</b>		
Donor restricted investment income	1,897	2,923
Donor restricted gifts, grants, and bequests	255,386	152,315
Assets released from restriction for operations	(94,110)	(220,987)
Other changes in fund balance	-	16,360
Net cash provided by (used in) noncapital financing activities	163,173	(49,389)
Net (decrease) increase in cash and cash equivalents	(1,056,210)	1,901,583
Cash and cash equivalents at beginning of year	2,935,991	1,034,408
Cash and cash equivalents at end of year	\$ 1,879,781	\$ 2,935,991
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>		
Cash and cash equivalents in current assets	\$ 1,463,342	\$ 2,682,725
Cash and cash equivalents in restricted funds	416,439	253,266
Total cash and cash equivalents	\$ 1,879,781	\$ 2,935,991

*See accompanying notes.*

# Berger Health System

## Notes to Consolidated Financial Statements

December 31, 2000

### **1. Summary of Significant Accounting Policies**

#### **Organization**

Berger Health System (the System) is operated by a Board of Governors pursuant to an agreement between the City of Circleville, Ohio and Pickaway County. The City of Circleville is the holder of legal title to the System. Members of the Board of Governors are appointed by the Board of County Commissioners and the Mayor of the City (four each) with the consent of City Council. The Mayor of the City of Circleville, by virtue of his position, is the President of the Board of Governors. As a result of this reporting relationship and pursuant to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the System is a component unit of the City of Circleville.

The System is comprised of two distinct entities, Berger Hospital and Pickaway Health Services (PHS). PHS provides health care and physician services in the geographic area served by Berger Hospital. PHS, which operates exclusively for the benefit and support of Berger Hospital, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and also qualifies as a public charity under Section 509 of the IRC.

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

#### **Basis of Presentation**

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

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### **Use of Estimates**

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

#### **Patient Accounts Receivable and Revenue**

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

#### **Net Patient Service Revenue**

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, diagnosis related groups, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including adjustments made to estimated third-party settlements on prior year cost reports. Estimated third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### **Premium Revenue**

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

#### **Charity Care**

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

#### **Hospital Care Assurance Program**

The Hospital Care Assurance Program (HCAP) provides financial assistance to the System for care provided to the indigent. Under HCAP, the System is assessed amounts which are matched with federal funds and subsequently redistributed to the System. In fiscal 2000 and 1999, the System received and recognized \$49,000 and \$266,000 respectively, in net HCAP distributions.

#### **Operating and Nonoperating Activities**

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

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### **Cash and Cash Equivalents**

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

#### **Assets Whose Use is Limited and Investments**

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

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

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

#### **Inventories**

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

#### **Property and Equipment**

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

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



# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### Goodwill

The System has recorded goodwill arising from business acquisitions. Amortization of goodwill is provided by annual charges to expense on a straight-line basis over 5 years.

#### Investment in CHO

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

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

On February 7, 2000, the Board of Directors of CHO approved the liquidation of CHO to be effective September 30, 2000. Berger received an approximately \$72,000 return on their investment from CHO in 2000. During 1999, the system recognized an investment impairment of approximately \$248,000 to write-down the CHO investment to its net realizable value.

#### Litigation

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

Malpractice and general patient liability claims have been asserted against the System by various claimants. The claims are in various stages and some may ultimately be brought to trial. At December 31, 2000, management believes asserted and unasserted claims and assessments will not exceed the limits of the insurance coverage. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at December 31, 2000.

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### Litigation (continued)

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

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

#### Functional Expenses

The System provides general health care services to residents within its geographic region. General and administrative expenses are approximately \$6,775,000 and \$6,477,000 of total expenses in 2000 and 1999, respectively.

#### Donor Restricted Funds

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

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

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

#### New Accounting Pronouncement

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

#### Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

### 2. Net Patient Service Revenue

Net patient service revenues are comprised for the following:

	Year ended December 31	
	2000	1999
Patient charges at established rates	\$65,040,214	\$ 56,653,660
Contractual adjustments	(23,068,331)	(19,300,697)
Hospital Care Assurance Program	49,350	266,477
Charity care	(257,725)	(184,610)
Net patient service revenue	<u>\$41,763,508</u>	<u>\$ 37,434,830</u>

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

#### 3. Deposits, Investments and Assets Whose Use Is Limited

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

	<b>December 31, 2000</b>		<b>December 31, 1999</b>	
	<b>Cost</b>	<b>Market</b>	<b>Cost</b>	<b>Market</b>
Cash and cash equivalents:	\$1,879,781	\$1,879,781	\$2,935,991	\$2,935,991
Investments:				
Certificates of deposit	\$2,000,000	\$2,000,000	\$1,000,000	\$1,000,000
Money market accounts	2,240,885	2,240,885	2,662,156	2,662,156
	\$4,240,885	\$4,240,885	\$3,662,156	\$3,662,156
Assets whose use is limited:				
Government securities	\$4,555,749	\$4,596,459	\$4,820,948	\$4,783,906
Corporate obligations	-	-	500,630	499,120
	\$4,555,749	\$4,596,459	\$5,321,578	\$5,283,026

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

	<b>2000</b>	<b>1999</b>
Change in unrealized (losses) gains	\$ 79,262	\$(145,908)
Interest and dividend income	576,936	705,227
	\$656,198	\$ 559,319

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

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

##### Deposits

At December 31, 2000, the carrying amount of the System's bank deposits for all funds is \$3,880,000 as compared to bank balance of \$4,414,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$562,000 is covered by federal insurance programs and \$3,852,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

##### Investments and Assets Whose Use Is Limited

The System's investments and assets whose use is limited are classified as available for sale and are recorded at market value. They are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the System or its agent in the System's name. Risk Categories 2 and 3 include investments, which are neither insured nor registered. Category 2 includes investments held by the counterparty's trust department (or agent) in the System's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the System's name. As of December 31, 2000, all investments and assets whose use is limited were Category 1 investments.

#### **4. Medicare and Medicaid Programs and Third-Party Settlements**

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

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

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

The reimbursement for Medicare and Medicaid patients is subject to final determination by the respective agencies. At December 31, 2000, final determinations have not been made for 1999 and 2000 for Medicare and 1995 through 2000 for Medicaid. The amounts reported on the financial statements represent estimated settlements outstanding at December 31, 2000 and 1999 which System management believes will approximate final settlements. The System recognized a (decrease) increase in net patient service revenue of (\$365,000) and \$280,000 in 2000 and 1999, respectively, on prior year estimated settlements.

Medicare and Medicaid represented 46% of charges at established rates for the year ended December 31, 2000 and represented 48% of charges at established rates for the year ended December 31, 1999.

#### 5. Long-Term Debt

Long-term debt consists of:

	<b>December 31</b>	
	<b>2000</b>	<b>1999</b>
\$2,000,000 loan agreement to the City of Circleville, Ohio, variable interest adjusted annually to a Pre-determined interest rate ranging from 5.036% to 5.400% (5.147% at December 31, 2000), retired by monthly principal and interest payments ranging from \$13,430 to \$13,838 starting December 1997 through December 2017	\$1,794,167	\$1,864,167
Less current portion	(70,000)	(70,000)
Long-term portion	<u>\$1,724,167</u>	<u>\$1,794,167</u>

## Berger Health System

### Notes to Consolidated Financial Statements (continued)

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

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

2001	\$ 70,000
2002	75,000
2003	75,000
2004	80,000
2005	85,000
Thereafter	1,409,167
Total	<u>\$1,794,167</u>

#### 6. Property and Equipment

Property and equipment consist of the following:

	December 31	
	2000	1999
Land and land improvements	\$ 1,117,692	\$ 1,108,209
Buildings and fixed equipment	32,341,885	30,266,738
Major moveable equipment	18,751,027	15,894,031
Construction-in-progress	214,525	2,163,735
Total	<u>52,425,129</u>	<u>49,432,713</u>
Less allowance for depreciation	<u>(22,279,317)</u>	<u>(19,596,440)</u>
Property and equipment, net	<u>\$30,145,812</u>	<u>\$29,836,273</u>

# Berger Health System

## Notes to Consolidated Financial Statements (continued)

### **7. Employee Benefit Plans**

#### **Pension Plan**

All Berger Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by PERS for the year ended December 31, 2000 was approximately \$10,606,000.

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

The ORC provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent of eligible salary. The employer contribution rate for local government employer units was 10.84, 13.55, and 13.55 percent of covered payroll in 2000, 1999, and 1998, respectively (\$1,150,000, \$1,271,000, and \$1,153,000 contributed in 2000, 1999, and 1998, respectively).

#### **Postretirement Benefits**

PERS also provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of the employer's contribution to PERS is set aside for the funding of postretirement health care. The ORC provides statutory authority for employer contributions. The 2000 employer contribution rate for local government employer units was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for the year 2000. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The System's 2000 contribution to the OPEB plan was \$456,000.



## Berger Health System

### Notes to Consolidated Financial Statements (continued)

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

##### **Postretirement Benefits (continued)**

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

As of December 31, 2000, the unaudited estimated net assets available for future OPEB payments were \$10,805,500,000. The number of benefit recipients eligible for OPEB at December 31, 2000 was 401,339.

##### **8. Tax Deferred Annuity Program**

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

This plan permits eligible employees to make voluntary contributions on a pretax basis. This plan allows plan participants to invest their savings in various investments. The employer contribution expense incurred by PHS during 2000 and 1999 was approximately \$125,000 and \$120,000, respectively.

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Report of Independent Auditors  
on Other Financial Information

Board of Governors  
Berger Health System

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

*Ernst + Young LLP*

May 4, 2001

Berger Health System  
 Details of Consolidated Balance Sheet

December 31, 2000

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
<b>Assets</b>				
General funds:				
Current assets:				
Cash and cash equivalents	\$ 767,322	\$ 696,020	\$ -	\$ 1,463,342
Investments	4,240,885	-	-	4,240,885
Accounts receivable—net	7,422,620	537,652	-	7,960,272
Inventories	822,823	-	-	822,823
Prepaid expenses and other assets	354,784	14,769	-	369,553
Total current assets	13,608,434	1,248,441	-	14,856,875
Due from Pickaway Health Services	9,930,337	-	(9,930,337)	-
Assets whose use is limited	4,596,459	-	-	4,596,459
Property and equipment, net	30,001,134	144,678	-	30,145,812
Goodwill	-	66,787	-	66,787
Other assets	64,468	197,000	-	261,468
Total assets	<u>\$ 58,200,832</u>	<u>\$ 1,656,906</u>	<u>\$ (9,930,337)</u>	<u>\$ 49,927,401</u>
Restricted funds:				
Cash and cash equivalents	\$ 416,439	\$ -	\$ -	\$ 416,439
Total restricted funds	<u>\$ 416,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,439</u>

Berger Health System

Details of Consolidated Balance Sheet (continued)

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
<b>Liabilities and fund balances</b>				
General funds:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 2,984,604	\$ 75,944	\$ -	\$ 3,060,548
Accrued payroll and related liabilities	1,623,936	547,921	-	2,171,857
Estimated Medicare and Medicaid third-party settlements—net	187,192	-	-	187,192
Current portion of long-term debt	70,000	-	-	70,000
Total current liabilities	4,865,732	623,865	-	5,489,597
Due to Berger Hospital	-	9,930,337	(9,930,337)	-
Long-term debt, less current portion	1,724,167	-	-	1,724,167
General fund balance (deficit)	51,610,933	(8,897,296)	-	42,713,637
 Total general funds	 \$ 58,200,832	 \$ 1,656,906	 \$ (9,930,337)	 \$ 49,927,401
Restricted funds:				
Fund balance	\$ 416,439	\$ -	\$ -	\$ 416,439
Total restricted funds	\$ 416,439	\$ -	\$ -	\$ 416,439

## Berger Health System

### Details of Consolidated Statement of Operations

Year ended December 31, 2000

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Consolidating and Eliminating Entries</b>	<b>Total Consolidated Balance</b>
<b>Revenue:</b>				
Net patient service revenue	\$ 37,779,395	\$ 3,984,113	\$ -	\$ 41,763,508
Premium revenue	197,548	366,474	-	564,022
Other revenue	916,340	97,638	(293,728)	720,250
<b>Total revenue</b>	<b>38,893,283</b>	<b>4,448,225</b>	<b>(293,728)</b>	<b>43,047,780</b>
<b>Expenses:</b>				
Wages and salaries	10,605,657	3,597,895	182,808	14,386,360
Benefits	2,195,902	562,214	-	2,758,116
Supplies and other	8,970,530	1,116,280	(349,490)	9,737,320
Purchased services	4,179,278	622,838	(127,046)	4,675,070
Provision for bad debts	7,484,672	296,690	-	7,781,362
Professional fees	1,147,823	6,252	-	1,154,075
Insurance	255,751	128,988	-	384,739
Depreciation and amortization	2,727,447	42,708	-	2,770,155
Interest expense	84,954	-	-	84,954
<b>Total expenses</b>	<b>37,652,014</b>	<b>6,373,865</b>	<b>(293,728)</b>	<b>43,732,151</b>
Gain (loss) from operations before gain (loss) from CHO	1,241,269	(1,925,640)	-	(684,371)
Gain (loss) from CHO:				
CHO operating gain	140,298	-	-	140,298
Gain (loss) from operations	1,381,567	(1,925,640)	-	(544,073)
<b>Nonoperating gains (losses):</b>				
Investment Income	650,054	6,144	-	656,198
Gain on investment in CHO	4,796	-	-	4,796
Other	(38,541)	-	-	(38,541)
	616,309	6,144	-	622,453
<b>Excess of revenue (expenses)</b>	<b>\$ 1,997,876</b>	<b>\$ (1,919,496)</b>	<b>\$ -</b>	<b>\$ 78,380</b>

## Berger Health System

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

Year ended December 31, 2000

	<b>Berger Hospital</b>	<b>Pickaway Health Services</b>	<b>Total Consolidated Balance</b>
<b>General funds:</b>			
Fund balance—beginning of year	\$ 49,613,057	\$ (6,977,800)	\$ 42,635,257
Excess of revenue (expenses)	1,997,876	(1,919,496)	78,380
Fund balance—end of year	<u>\$ 51,610,933</u>	<u>\$ (8,897,296)</u>	<u>\$ 42,713,637</u>
<b>Restricted funds:</b>			
Fund balance—beginning of year	\$ 253,266	\$ -	\$ 253,266
Investment income	1,897	-	1,897
Gifts and bequests	255,386	-	255,386
Assets released from restriction for operations	(94,110)	-	(94,110)
Fund balance—end of year	<u>\$ 416,439</u>	<u>\$ -</u>	<u>\$ 416,439</u>

Berger Health System  
Schedule of Financial and Statistical  
Highlights—Hospital Only (Unaudited)  
Five Year Summary—1996 through 2000

	December 31				
	2000	1999	1998	1997	1996
Net days of revenue in net accounts receivable	71.3	66.4	79.9	56.9	51.9
Patient days:					
Medical and surgical	5,948	5,656	6,049	6,827	6,798
Special care	1,918	1,474	1,180	1,146	1,303
Rehabilitation	2,217	1,746	1,950	2,072	2,344
Maternity	672	524	89	-	-
Total patient days	10,755	9,400	9,268	10,045	10,445
Average percentage of occupancy—adult	36.3%	41.2%	37.3%	41.7%	46.2%
Inpatient admissions—adult	2,770	2,256	1,803	1,828	1,798
Average length of stay in days—adult	3.9	3.9	4.3	4.4	4.5
Departmental data:					
Operations	4,104	3,719	3,860	3,393	3,376
Radiology procedures	33,987	29,934	30,058	29,763	27,458
Laboratory procedures	328,642	315,654	325,484	358,708	311,720
Emergency room visits	27,736	25,449	23,131	21,913	23,157
Cardiopulmonary procedures	59,566	55,653	50,767	42,488	41,359



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

Board of Governors  
Berger Health System

We have audited the financial statements of Berger Health System (the System), a component unit of the City of Circleville, as of and for the year ended December 31, 2000, and have issued our report thereon dated May 4, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Ernst + Young LLP*

May 4, 2001

Berger Health System

Schedule of Findings

Year Ended December 31, 2000

**Part I—Summary of Auditor’s Results**

**Financial Statement Section**

Type of auditor’s report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?            yes   X   no

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

Noncompliance material to financial statements noted?            yes   X   no

**Federal Awards Section**

Not applicable.

# Berger Health System

## Schedule of Findings—Continued

### **Part II—Schedule of Financial Statement Findings**

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

None.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**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  
AUGUST 28, 2001**