

Berger Health System

Financial Report
December 31, 2013



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, 2013 through December 31, 2013. 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

May 30, 2014

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Berger Health System

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Independent Auditor's Report

To the Board of Governors
Berger Health System

Report on the Financial Statements

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, Ohio, as of and for the years ended December 31, 2013 and 2012 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012 and the changes in net position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Governors
Berger Health System

Other Matters

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2014 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moreau, PLLC

May 9, 2014

Berger Health System
A Component Unit of
Circleville, Ohio

Management's Discussion and Analysis

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, 2013. 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.

System Highlights

- Initiated the "Building On Tradition" capital campaign to fund single patient rooms, raising \$1.2 million in the first five months.
- Awarded "Top Performer on Key Quality Measures" from the Joint Commission for the second year in a row.
- Continued successful implementation of electronic medical records receiving full eligible Meaningful Use incentive dollars for our use of the technology.
- Expanded clinical services including ear, nose, and throat, pain management, and an orthopedic surgeon support agreement.
- Received a Partnership for Patients grant to increase worker and patient safety.

Financial Highlights

- During the year, the System achieved \$2.7 million in transformation savings. These savings are derived from revenue enhancement and expense savings.
- During the year, the System received \$1.2 million in pledge income related to the capital campaign.
- During the year, the System's net operating revenue decreased by 4.7 percent to \$77.5 million while expenses were reduced by 2.4 percent to \$77.8 million.
- Throughout 2013, the System made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations:
 - Emergency Department Renovations
 - Secondary Server Room
 - Parking Lot Expansion and Resurfacing

Berger Health System

Management's Discussion and Analysis (Continued)

- Voice Recognition System
- Infant Security System
- Electrical Distribution System Upgrades
- Numerous Infrastructure Improvements

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 statement of net position 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 position. This statement measures the financial results of the System's operations and presents revenue earned and expenses incurred.

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

Financial Analysis

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

Berger Health System

Management's Discussion and Analysis (Continued)

A summary of the System's statement of net position as of December 31, 2013, 2012, and 2011 is presented below. Net position decreased to \$57.6 million in 2013, down \$616,000 from 2012, and \$285,000 from 2011.

	2013	2012	\$ Change 2013-2012	% Change 2013-2012	2011
Assets					
Cash and investments	\$ 31,120,866	\$ 37,004,057	\$ (5,883,191)	-15.9%	\$ 36,447,172
Capital assets	35,806,428	37,049,804	(1,243,376)	-3.4%	39,340,708
Other assets	13,539,974	12,028,383	1,511,591	12.6%	12,909,415
Total assets	<u>\$ 80,467,268</u>	<u>\$ 86,082,244</u>	<u>\$ (5,614,976)</u>	<u>-6.5%</u>	<u>\$ 88,697,295</u>
Liabilities and Net Position					
Liabilities					
Current and other liabilities	\$ 10,575,522	\$ 11,762,171	\$ (1,186,649)	-10.1%	\$ 11,043,665
Long-term debt	12,329,333	16,141,750	(3,812,417)	-23.6%	19,806,583
Total liabilities	22,904,855	27,903,921	(4,999,066)	-17.9%	30,850,248
Net Position					
General	55,834,602	57,436,671	(1,602,069)	-2.8%	57,176,077
Restricted	1,727,811	741,652	986,159	133.0%	670,970
Total net position	<u>57,562,413</u>	<u>58,178,323</u>	<u>(615,910)</u>	<u>-1.1%</u>	<u>57,847,047</u>
Total liabilities and net position	<u>\$ 80,467,268</u>	<u>\$ 86,082,244</u>	<u>\$ (5,614,976)</u>	<u>-6.5%</u>	<u>\$ 88,697,295</u>

Berger Health System

Management's Discussion and Analysis (Continued)

A summary of the System's statements of revenue, expenses, and changes in net position for the years ended December 31, 2013, 2012, and 2011 is presented below.

	2013	2012	\$ Change 2013- 2012	% Change 2013-2012	2011
Revenue:					
Net patient revenue	\$ 73,294,987	\$ 76,770,961	\$ (3,475,974)	-4.5%	\$ 76,342,149
Other	4,239,519	4,576,634	(337,115)	-7.4%	2,516,968
Total revenue	77,534,506	81,347,595	(3,813,089)	-4.7%	78,859,117
Expenses:					
Salaries and benefits	39,164,747	39,568,487	(403,740)	-1.0%	38,978,222
Supplies and other	33,892,041	35,199,430	(1,307,389)	-3.7%	32,828,240
Depreciation	4,718,747	4,952,957	(234,210)	-4.7%	5,163,226
Total expenses	77,775,535	79,720,874	(1,945,339)	-2.4%	76,969,688
(Loss) gain from operations	(241,029)	1,626,721	(1,867,750)	-114.8%	1,889,429
Nonoperating expense	(1,361,040)	(1,366,127)	5,087	-0.4%	(1,250,024)
Excess of revenue (under) over expenses	(1,602,069)	260,594	(1,862,663)	-714.8%	639,405
Change in restricted net position	986,159	70,682	915,477	1295.2%	40,446
Total net position - Beginning of year	58,178,323	57,847,047	331,276	0.6%	57,167,196
Total net position - End of year	<u>\$ 57,562,413</u>	<u>\$ 58,178,323</u>	<u>(615,910)</u>	-1.1%	<u>\$ 57,847,047</u>

Operating and Financial Performance

Sources of Revenue

During 2013, 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, 2013, 2012, and 2011.

Payor	2013	2012	2011
Medicare	47.1%	46.7%	45.8%
Medicaid	17.3%	16.7%	16.7%
Commercial	28.3%	29.2%	29.3%
BWC	1.0%	0.9%	1.0%
Self-pay	6.0%	6.2%	7.0%
Other	0.3%	0.2%	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.

During 2013, the System saw a continuing increase in its outpatient services as a percentage of total services provided. This shift toward outpatient services is significant financially because the payor contracts mentioned above generally provide lower reimbursement for outpatient services compared to inpatient services.

Type of Service	2013	2012	2011
Inpatient	26.3%	28.3%	28.7%
Outpatient	73.7%	71.7%	71.3%

Revenue

Net patient revenue decreased \$3.5 million in 2013 primarily as a result of reduced patient volumes. Further discussion follows:

- Outpatient visits decreased from 2012 by 2,058 (2.3%).
- Admissions decreased from 2012 by 244 (10%).
- Patient days decreased from 2012 by 1,174 (12.5%).
- Physician encounters decreased from 2012 by 1,260 (2%).
- During 2013, the System received \$1.5 million net receipts from the meaningful use incentive program. Meaningful use dollars represent incentives received for successful implementation and use of electronic medical record technology.
- During 2013, net receipts from the Health Care Assurance Program (HCAP) of \$691,000 were recognized. This is a decrease from the amounts received in 2012, \$770,000, and 2011, \$906,000. 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 \$5.9 million were waived during 2013. This is a decrease from \$6.5 million during 2012. Management's commitment to provide care for all patients without regard to their ability to pay and the high number of uninsured continues to contribute to these levels.

Berger Health System

Management's Discussion and Analysis (Continued)

Expenses

Total operating expenses were reduced by \$1.9 million in 2013. Significant fluctuations discussed below:

- Supply usage was reduced \$2.2 million from fiscal year 2012. The decrease is due to both declining patient volumes and savings achieved through an initiative called Transformation. The entity-wide transformation project achieved \$2.7M in expense savings.
- Salaries, benefits, and contract labor decreased \$760,000 from fiscal year 2012. The decrease is attributed to a focused effort on effective full-time equivalent (FTE) management during times of reduced patient volumes.
- Physician services increased \$747,000 from fiscal year 2012. This increase was due in large part to increased usage of these services and management groups as we expanded service lines for ear, nose, and throat and pain management and to provide appropriate services during times of provider turnover.
- Repairs and maintenance expense increased \$225,000 from fiscal year 2012. The increase is not due to any particular large repairs, but is reflective of higher maintenance costs due to deferred capital spending in past years.

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.

	2013	2012	Increase (Decrease)	2011
Cash provided by (used in):				
Operating activities	\$ 2,671,046	\$ 8,016,721	\$ (5,345,675)	\$ 7,844,307
Investing activities	(366,954)	(1,636,441)	1,269,487	(682,174)
Financing activities	(7,911,052)	(6,962,415)	(948,637)	(7,614,729)
Net (decrease) increase in cash	(5,606,960)	(582,135)	(5,024,825)	(452,596)
Cash - Beginning of year	10,874,333	11,456,468	(582,135)	11,909,064
Cash - End of year	<u>\$ 5,267,373</u>	<u>\$ 10,874,333</u>	<u>\$ (5,606,960)</u>	<u>\$ 11,456,468</u>

The System's liquidity position decreased by \$5.6 million from 2012 results. Listed below is an overview of the cash flows presented above.

- Cash generated by operations was \$2.7 million in 2013 (\$8.0 million in 2012).
- Cash used for fixed asset additions was \$3.5 million in 2013 (\$2.6 million in 2012). Debt payments in 2013 were \$3.7 million versus \$3.5 million in 2012.

Berger Health System

Management's Discussion and Analysis (Continued)

In 2013, 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, provider services with a local skilled nursing facility, and the establishment of new service lines for ear, nose, and throat and pain management.

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 2013 results are summarized below:

	2013 Actual	2013 Budget	\$ Change	% Change
Revenue:				
Net patient revenue	\$ 73,294,987	\$ 78,377,273	\$ (5,082,286)	-6.5%
Other	4,239,519	4,007,394	232,125	5.8%
Total revenue	77,534,506	82,384,667	(4,850,161)	-5.9%
Expenses:				
Salaries and benefits	39,164,747	40,867,573	(1,702,826)	-4.2%
Supplies and other	33,892,041	34,733,064	(841,023)	-2.4%
Depreciation	4,718,747	4,707,189	11,558	0.2%
Total expenses	77,775,535	80,307,826	(2,532,291)	-3.2%
(Loss) gain from operations	(241,029)	2,076,841	(2,317,870)	-111.6%
Nonoperating expense	(1,361,040)	(1,255,961)	(105,079)	8.4%
Excess of revenue (under) over expenses	(1,602,069)	820,880	(2,422,949)	-295.2%
Change in restricted net position	986,159	-	986,159	
Total net position - End of year	57,562,413	-	57,562,413	
Net position decrease	<u>\$ (615,910)</u>	<u>\$ -</u>	<u>\$ (1,436,790)</u>	

In comparing actual versus budgeted 2013 results, the following variances are noted:

- Net patient revenue was \$5.1 million less than budget due to decreased patient volume.
- Salaries and benefits was \$1.7 million less than budget due to effective management of FTEs and reduced health benefit claims.
- Supplies and other was \$841,000 less than budget, due to decreased patient volumes and transformation savings.

Berger Health System

Management's Discussion and Analysis (Continued)

- Change in restricted net position was \$986,000 greater than budget due to the capital campaign pledged amounts.

Capital Assets

During 2013, the Hospital invested \$3.5 million in a broad range of capital assets included in the table below:

	2013	2012	\$ Change 2013-2012	% Change 2013-2012	2011
Land and land improvements	\$ 5,152,333	\$ 4,880,681	\$ 271,652	5.6%	\$ 4,843,162
Buildings and fixed equipment	59,153,747	57,930,697	1,223,050	2.1%	57,900,935
Major moveable equipment	52,141,285	50,197,633	1,943,652	3.9%	49,314,513
Total capital assets	116,447,365	113,009,011	3,438,354	3.0%	112,058,610
Less accumulated depreciation	(83,065,412)	(78,813,392)	(4,252,020)	5.4%	(74,122,717)
Construction in progress	1,584,237	1,887,314	(303,077)	-16.1%	359,521
Capital assets - Net	\$ 34,966,190	\$ 36,082,933	\$ (1,116,743)	-3.1%	\$ 38,295,414

The Hospital purchased, replaced, or updated the following capital assets:

- Emergency Department Renovations
- Secondary Server Room
- Parking Lot Expansion and Resurfacing
- Voice Recognition System
- Infant Security System
- Electrical Distribution System Upgrades
- Numerous Infrastructure Improvements

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 2014 capital budget with projected spending of \$6 million for capital projects. These projects will be financed primarily from operations and reserves.

Berger Health System

Management's Discussion and Analysis (Continued)

Capital Budget	Amount
Radiology	\$ 1,400,000
Private rooms	850,000
Physician offices	670,000
Network upgrade	500,000
Patient tower roof replacement	323,200
Kronos upgrade	187,116
Hematology analyzers	173,918
Cooling tower	167,990
FUJI synapse PACS upgrade	125,298
Sterilizer	99,855
Cost accounting	94,160
PC replacement	90,000
Medical records	80,000
Microscan analyzer	78,000
Chiller	61,043
Electrical panel	61,000
Microsoft license	50,000
Facilities vehicle	50,000
Other equipment purchases	555,310
Facility upgrades	<u>393,810</u>
Total	<u>\$ 6,010,700</u>

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

Long-term Debt

At year end, the System had \$16.1 million in short-term and long-term notes and bonds, a decrease from \$19.8 million at December 31, 2012. Principal payments on long-term debt in 2013 were approximately \$3.7 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 2014 Budget

The System's board and management considered many factors when setting the 2014 budget. Of significant importance was the impact of federal and state legislation, which takes into account a focus on quality measures and other factors such as the following:

- Demographics and impact areas of underinsured citizens
- Increasing expectations for quality improvement:
 - Decreased re-admissions
 - Value-based purchasing (patient satisfaction)

Berger Health System

Management's Discussion and Analysis (Continued)

- Decreased hospital acquired conditions
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation - Health Insurance Portability and Accountability Act (HIPAA)
- Continued downward pressure on reimbursement rates
- Increased competition for employees and providers
- Focus on population health
- Clinical process redesigns
- Increasing costs of business (supplies, drugs)

The focus of management is to refine and execute its multi-year plan that will emphasize needed services to 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, please contact the vice president of finance, Thomas A. Scherer, CPA, CHFP at (740) 420-8002 or Tom.Scherer@bergerhealth.com.

Berger Health System

Statement of Net Position

	December 31, 2013		December 31, 2012	
	Hospital	Component Units	Hospital	Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,086,012	\$ 1,007,207	\$ 4,897,018	\$ 1,123,683
Restricted cash and cash equivalents	174,154	-	4,853,632	-
Short-term investments (Note 2)	17,610,192	189,149	17,665,244	274,503
Net patient accounts receivable (Note 3)	7,714,795	665,239	7,271,430	612,039
Estimated third-party payor settlements	1,295,395	-	1,202,144	-
Prepaid expenses and other	1,405,872	471,272	1,475,644	229,340
Inventory	987,924	-	1,172,191	-
Pledges receivable - current	-	367,729	-	-
Total current assets	33,274,344	2,700,596	38,537,303	2,239,565
Long-term Investments (Note 2)	7,159,669	894,483	7,574,562	615,415
Property and Equipment - Net (Note 4)	34,966,190	840,238	36,082,933	966,871
Long-term Pledges Receivable - Net	-	588,121	-	-
Other Assets	43,627	-	65,595	-
Total assets	<u>\$ 75,443,830</u>	<u>\$ 5,023,438</u>	<u>\$ 82,260,393</u>	<u>\$ 3,821,851</u>
Liabilities and Net Position				
Current Liabilities				
Current portion of long-term debt (Note 5) \$	3,812,417	\$ -	\$ 3,664,833	\$ -
Accounts payable	2,506,511	527,090	3,021,482	330,422
Accrued liabilities and other:				
Accrued compensation and related accruals	1,605,083	648,354	2,451,117	693,392
Accrued compensated absences (Note 5)	565,091	146,376	664,261	102,876
Accrued interest	53,135	-	66,651	-
Total current liabilities	8,542,237	1,321,820	9,868,344	1,126,690
Long-term Debt - Net of current portion (Note 5)	12,329,333	-	16,141,750	-
Other Liabilities - Accrued compensated absences - Net of current portion (Note 5)	565,090	146,375	664,261	102,876
Total liabilities	21,436,660	1,468,195	26,674,355	1,229,566
Net Position				
Net investments in capital assets	18,824,440	840,238	20,963,932	966,871
Restricted - Expendable for capital improvements, debt service, and other purposes	-	1,727,811	23,656	717,996
Unrestricted	35,182,730	987,194	34,598,450	907,418
Total net position	54,007,170	3,555,243	55,586,038	2,592,285
Total liabilities and net position	<u>\$ 75,443,830</u>	<u>\$ 5,023,438</u>	<u>\$ 82,260,393</u>	<u>\$ 3,821,851</u>

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

Berger Health System

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended			
	December 31, 2013		December 31, 2012	
	Hospital	Component Units	Hospital	Component Units
Operating Revenue				
Net patient service revenue	\$ 65,849,675	\$ 7,445,312	\$ 69,549,671	\$ 7,221,290
Other	3,211,630	1,027,889	3,355,796	1,220,838
Total operating revenue	69,061,305	8,473,201	72,905,467	8,442,128
Operating Expenses				
Salaries and wages	23,004,196	7,924,430	23,087,325	7,754,918
Employee benefits and payroll taxes	6,969,633	1,266,488	7,276,136	1,450,108
Operating supplies and other	19,042,752	1,821,866	20,541,519	1,709,647
Professional services and consultant fees	4,182,733	24,170	3,543,991	41,873
Purchased services	5,206,743	1,748,939	6,022,190	1,405,716
Insurance	472,813	266,541	476,304	331,840
Depreciation and amortization	4,574,774	143,973	4,806,336	146,621
State hospital assessment	1,125,484	-	1,126,350	-
Total operating expenses	64,579,128	13,196,407	66,880,151	12,840,723
Operating Income (Loss)	4,482,177	(4,723,206)	6,025,316	(4,398,595)
Other Income (Expenses)				
Interest income	62,079	-	75,341	-
(Loss) gain on sale of property	(95,417)	-	2,700	-
Contributions	94,199	6,861	146,168	-
Interest expense	(714,192)	-	(864,093)	-
Other expense	(525,849)	(188,721)	(513,936)	(212,307)
Total other expenses	(1,179,180)	(181,860)	(1,153,820)	(212,307)
Excess of Revenue Over (Under) Expenses	3,302,997	(4,905,066)	4,871,496	(4,610,902)
Contribution (to) from Component Units	(4,858,209)	4,858,209	(4,482,637)	4,482,637
(Expenditures) Contributions of Restricted Assets	(23,656)	1,009,815	(29,421)	100,103
(Decrease) Increase in Net Position	(1,578,868)	962,958	359,438	(28,162)
Net Position - Beginning of year	55,586,038	2,592,285	55,226,600	2,620,447
Net Position - End of year	\$ 54,007,170	\$ 3,555,243	\$ 55,586,038	\$ 2,592,285

Berger Health System

Statement of Cash Flows

	Year Ended			
	December 31, 2013		December 31, 2012	
	Hospital	Component Units	Hospital	Component Units
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 65,406,310	\$ 7,379,741	\$ 69,962,841	\$ 7,389,462
Cash payments to suppliers for services and goods	(30,292,954)	(3,894,409)	(30,876,781)	(3,676,677)
Cash payments to employees and for professional services	(31,018,204)	(9,148,957)	(30,251,570)	(9,107,188)
Other operating revenue received	3,211,630	1,027,889	3,355,796	1,220,838
Net cash provided by (used in) operating activities	7,306,782	(4,635,736)	12,190,286	(4,173,565)
Cash Flows from Noncapital Financing Activities - Contributions (to) from component units				
	(4,858,209)	4,858,209	(4,482,637)	4,482,637
Cash Flows from Investing Activities				
Cash received from (used in) investments	8,962,172	(193,714)	12,360,205	93,856
Cash paid for investments	(8,492,227)	-	(13,588,468)	-
Interest income and other	(461,325)	(181,860)	(289,727)	(212,307)
Net cash provided by (used in) investing activities	8,620	(375,574)	(1,517,990)	(118,451)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(3,531,480)	(17,340)	(2,566,536)	(68,198)
Repayment of long-term debt	(3,664,833)	-	(3,524,417)	-
Other capital-related (expenditures) contributions	(23,656)	53,965	(29,421)	100,103
Cash paid for interest	(727,708)	-	(873,946)	-
Net cash (used in) provided by capital and related financing activities	(7,947,677)	36,625	(6,994,320)	31,905
Net (Decrease) Increase in Cash and Cash Equivalents	(5,490,484)	(116,476)	(804,661)	222,526
Cash and Cash Equivalents - Beginning of year	9,750,650	1,123,683	10,555,311	901,157
Cash and Cash Equivalents - End of year	\$ 4,260,166	\$ 1,007,207	\$ 9,750,650	\$ 1,123,683

For the Hospital, cash and cash equivalents are comprised of cash and cash equivalents and restricted cash and cash equivalents in the amounts of \$4,086,012 and \$174,154, respectively, in 2013 and \$4,897,018 and \$4,853,632, respectively, in 2012.

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, 2013		December 31, 2012	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 4,482,177	\$ (4,723,206)	\$ 6,025,316	\$ (4,398,595)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	4,574,774	143,973	4,806,336	146,621
Provision for bad debts	5,037,093	530,902	5,554,756	490,688
Loss on disposal of property and equipment	95,417	-	-	-
Changes in assets and liabilities:				
Net patient accounts receivable	(5,480,458)	(596,473)	(5,141,586)	(322,516)
Inventories and other assets	263,892	(229,561)	886,029	(69,394)
Accounts payable and accrued liabilities	(1,572,862)	238,629	620,109	(20,369)
Estimated third-party settlements	(93,251)	-	(560,674)	-
Net cash provided by (used in) operating activities	<u>\$ 7,306,782</u>	<u>\$ (4,635,736)</u>	<u>\$12,190,286</u>	<u>\$ (4,173,565)</u>

Berger Health System

Component Units - Combining Statement of Net Position December 31, 2013

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 23,662	\$ 25,414	\$ 958,131	\$ 1,007,207
Short-term investments	-	-	189,149	189,149
Net patient accounts receivable	549,533	115,706	-	665,239
Prepaid expenses and other	311,022	8,996	151,254	471,272
Pledges receivable - Current	-	-	367,729	367,729
Total current assets	884,217	150,116	1,666,263	2,700,596
Long-term Investments	211,763	-	682,720	894,483
Property and Equipment-Net	454,271	-	385,967	840,238
Long-term Pledges Receivable- Net	-	-	588,121	588,121
Total assets	<u>\$ 1,550,251</u>	<u>\$ 150,116</u>	<u>\$ 3,323,071</u>	<u>\$ 5,023,438</u>
Liabilities and Net Position				
Current Liabilities				
Accounts payable	\$ 412,850	\$ 14,676	\$ 99,564	\$ 527,090
Accrued liabilities and other:				
Accrued compensation and related accruals	513,265	126,803	8,286	648,354
Accrued compensated absences	136,658	4,878	4,840	146,376
Total current liabilities	1,062,773	146,357	112,690	1,321,820
Other Liabilities - Accrued compensated absences - Net of current portion	136,657	4,878	4,840	146,375
Total liabilities	1,199,430	151,235	117,530	1,468,195
Net Position				
Net investment in capital assets	454,271	-	385,967	840,238
Restricted - Expendable for capital improvements	-	-	1,727,811	1,727,811
Unrestricted	(103,450)	(1,119)	1,091,763	987,194
Total net position	350,821	(1,119)	3,205,541	3,555,243
Total liabilities and net position	<u>\$ 1,550,251</u>	<u>\$ 150,116</u>	<u>\$ 3,323,071</u>	<u>\$ 5,023,438</u>

Berger Health System

Component Units - Combining Statement of Net Position December 31, 2012

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 171,578	\$ 23,453	\$ 928,652	\$ 1,123,683
Short-term investments	-	-	274,503	274,503
Net patient accounts receivable	509,565	102,474	-	612,039
Prepaid expenses and other	8,304	11,078	209,958	229,340
Total current assets	689,447	137,005	1,413,113	2,239,565
Long-term Investments	211,904	-	403,511	615,415
Property and Equipment - Net	580,904	-	385,967	966,871
Total assets	<u>\$ 1,482,255</u>	<u>\$ 137,005</u>	<u>\$ 2,202,591</u>	<u>\$ 3,821,851</u>
Liabilities and Net Position				
Current Liabilities				
Accounts payable	\$ 259,568	\$ 15,308	\$ 55,546	\$ 330,422
Accrued liabilities and other:				
Accrued compensation and related accruals	586,597	94,552	12,243	693,392
Accrued compensated absences	74,327	22,570	5,979	102,876
Total current liabilities	920,492	132,430	73,768	1,126,690
Other Liabilities - Accrued compensated absences - Net of current portion	74,326	22,570	5,980	102,876
Total liabilities	994,818	155,000	79,748	1,229,566
Net Position				
Net investment in capital assets	580,904	-	385,967	966,871
Restricted - Expendable for capital improvements	-	-	717,996	717,996
Unrestricted	(93,467)	(17,995)	1,018,880	907,418
Total net position	487,437	(17,995)	2,122,843	2,592,285
Total liabilities and net position	<u>\$ 1,482,255</u>	<u>\$ 137,005</u>	<u>\$ 2,202,591</u>	<u>\$ 3,821,851</u>

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2013

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenue				
Net patient service revenue	\$ 6,435,054	\$ 1,010,258	\$ -	\$ 7,445,312
Other	235,678	323,323	468,888	1,027,889
Total operating revenue	6,670,732	1,333,581	468,888	8,473,201
Operating Expenses				
Salaries and wages	6,510,790	1,247,771	165,869	7,924,430
Employee benefits and payroll taxes	997,838	244,960	23,690	1,266,488
Operating supplies and other	1,759,530	39,714	22,622	1,821,866
Professional services and consultant fees	-	24,170	-	24,170
Purchased services	1,458,778	66,746	223,415	1,748,939
Insurance	266,012	-	529	266,541
Depreciation and amortization	143,973	-	-	143,973
Total operating expenses	11,136,921	1,623,361	436,125	13,196,407
Operating (Loss) Income	(4,466,189)	(289,780)	32,763	(4,723,206)
Other Income (Expenses)				
Contributions	-	-	6,861	6,861
Other	3,073	-	(191,794)	(188,721)
Total other income (expenses)	3,073	-	(184,933)	(181,860)
Excess of Expenses Over Revenue	(4,463,116)	(289,780)	(152,170)	(4,905,066)
Contribution from Hospital	4,326,500	306,656	225,053	4,858,209
Contribution of Restricted Assets	-	-	1,009,815	1,009,815
(Decrease) Increase in Net Position	(136,616)	16,876	1,082,698	962,958
Net Position - Beginning of year	487,437	(17,995)	2,122,843	2,592,285
Net Position - End of year	<u>\$ 350,821</u>	<u>\$ (1,119)</u>	<u>\$ 3,205,541</u>	<u>\$ 3,555,243</u>

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2012

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenue				
Net patient service revenue	\$ 6,257,274	\$ 964,016	\$ -	\$ 7,221,290
Other	487,288	358,082	375,468	1,220,838
Total operating revenue	6,744,562	1,322,098	375,468	8,442,128
Operating Expenses				
Salaries and wages	6,313,953	1,236,939	204,026	7,754,918
Employee benefits and payroll taxes	1,089,383	339,287	21,438	1,450,108
Operating supplies and other	1,651,536	44,513	13,598	1,709,647
Professional services and consultant fees	16,426	25,372	75	41,873
Purchased services	1,310,917	63,927	30,872	1,405,716
Insurance	331,840	-	-	331,840
Depreciation and amortization	146,621	-	-	146,621
Total operating expenses	10,860,676	1,710,038	270,009	12,840,723
Operating (Loss) Income	(4,116,114)	(387,940)	105,459	(4,398,595)
Other Income (Expenses)	-	30	(212,337)	(212,307)
Excess of Expenses Over Revenue	(4,116,114)	(387,910)	(106,878)	(4,610,902)
Contribution from Hospital	3,904,919	392,808	184,910	4,482,637
Contributions of Restricted Assets	-	-	100,103	100,103
(Decrease) Increase in Net Position	(211,195)	4,898	178,135	(28,162)
Net Position - Beginning of year	698,632	(22,893)	1,944,708	2,620,447
Net Position - End of year	<u>\$ 487,437</u>	<u>\$ (17,995)</u>	<u>\$ 2,122,843</u>	<u>\$ 2,592,285</u>

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

Note I - Nature of Business and Significant Accounting Policies

Organization - Berger Health System (the "System"), a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital and related entities operated by a board of governors pursuant to an equal ownership agreement between the City of Circleville, Ohio and Pickaway County. The Board comprises nine (9) members: the Mayor of Circleville; three representatives appointed by the City, of which one must be a medical doctor; three representatives appointed by the County; and two at-large members selected and elected by the Board. As provided by the Board Bylaws, the Board may elect no more than two (2) *ex-officio* members. One *ex-officio* member, a physician, currently serves on the Board. At all times, a majority of the Board members must be residents of Pickaway County. Pursuant to the agreement, the chairperson is elected by the Board. 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

Notes to Financial Statements December 31, 2013 and 2012

Note I - 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.

Proprietary Fund Accounting - The System utilizes the propriety 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 \$8,000 and \$4,688,000 at December 31, 2013 and 2012, respectively.

Investments - Investments include certificates of deposit, money market accounts, and government securities and are recorded at fair value on the statement of net position. 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 I - 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 Position - Net position of the System is classified in three components. Invested in capital assets - net of related debt consists 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 assets represent noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System. Unrestricted net position consists of the remaining net position that does not meet the definition of invested in capital assets - net of related debt or restricted.

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance 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 2013 and 2012 and the net outcome was not significant to the financial statements. If selected for further audits, the potential exists for significant overpayment or underpayment of claims.

Electronic Health Records Incentive Payments - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The System may receive an incentive payment for up to four years, provided the System demonstrates meaningful use of certified EHR technology for the EHR reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the System will comply with eligibility requirements during the EHR reporting period and an incentive payment will be received. The amounts are recorded within other operating revenue as the incentive payments are related to the System's ongoing and central activities yet not critical to the delivery of patient service.

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

During 2012, the System attested to Centers for Medicare and Medicaid Services (CMS) that it had met the first stage of meaningful use criteria for the first year EHR reporting period, which covered 90 continuous days beginning and ending in federal fiscal year 2013. During 2013, the System attested that it had met the first stage of meaningful use criteria for the second year EHR reporting period, which covered 12 continuous months beginning and ending in federal fiscal year 2013. As such, incentive payments were recognized as income within other operating revenue in the amount of approximately \$1,548,000 and \$1,973,000 for the years ended December 31, 2013 and 2012, respectively.

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.

In 2013, the Foundation began a five year capital campaign to raise funds for capital improvements to be made to the Hospital. All outstanding pledges are recorded net of an allowance for uncollectible accounts and multi-year pledges are recorded at net present value. Net revenue from the capital campaign totaling \$1,076,329 for the year ended December 31, 2013 is included in contributions of restricted assets on the statement of revenues, expenses and changes in net position net of releases from restriction. Cash collected from the campaign in 2013 and net pledges receivable at December 31, 2013 are classified as restricted assets-expendable for capital improvements on the statement of net position.

Operating Income (Loss) - For the purpose 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 \$2,292,000 and \$2,495,000 of services to indigent patients during 2013 and 2012, 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.

Adoption of New Accounting Pronouncements - In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interests in legally separate organizations. The System has evaluated the effect of adopting this standard in 2013 and has determined that it remains appropriate to discretely present all component units of the System's financial statements at and for the year ended December 31, 2013.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Since the System has no previously reported assets or liabilities that require reclassification to deferred outflows and inflows, Statement No. 65 has no impact on the financial statements at and for the year ended December 31, 2013.

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

Upcoming Accounting Change - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The System is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 9, 2014, which is the date the financial statements were available to be 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 five 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 \$7,424,000 and \$12,672,000 as of December 31, 2013 and 2012, 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 \$22,506,000 and \$22,454,000 and the component units' investment in U.S. agency bonds totaled approximately \$0 and \$175,000 as of December 31, 2013 and 2012, respectively. The Hospital's investment in the STAR Ohio fund was \$258,000 as of December 31, 2013 and 2012.

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

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, 2013:		
U.S. agency bonds	\$ 22,506,000	Counterparty
STAR Ohio	258,000	Hospital's name
December 31, 2012:		
U.S. agency bonds	22,629,000	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, 2013:		
U.S. agency bonds	\$ 22,506,000	0.90 years
STAR Ohio	258,000	0.00 years
December 31, 2012:		
U.S. agency bonds	22,629,000	0.74 years
STAR Ohio	258,000	0.00 years

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

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, 2013:			
U.S. agency bonds	\$ 22,506,000	AA+	Standard & Poor's
STAR Ohio	258,000	AAA	Standard & Poor's
December 31, 2012:			
U.S. agency bonds	22,629,000	AA+	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 statement of net position.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	Hospital	
	2013	2012
Patient accounts receivable	\$ 17,841,795	\$ 16,605,430
Less allowance for uncollectible accounts	(3,467,000)	(2,494,000)
Less allowance for contractual adjustments	(6,660,000)	(6,840,000)
Net patient accounts receivable	<u>\$ 7,714,795</u>	<u>\$ 7,271,430</u>
	Component Units	
	2013	2012
Patient accounts receivable	\$ 1,268,239	\$ 1,168,039
Less allowance for uncollectible accounts	(100,000)	(80,000)
Less allowance for contractual adjustments	(503,000)	(476,000)
Net patient accounts receivable	<u>\$ 665,239</u>	<u>\$ 612,039</u>

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

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	
	2013	2012
Medicare	15%	19%
Medicaid	4	2
Commercial insurance and HMOs	57	56
Self-pay	24	23
Total	100%	100%

Note 4 - Property and Equipment

The cost of property and equipment for the Hospital for December 31, 2013 is summarized below:

	2012	Additions	Transfers	Retirements	2013
Capital assets not being depreciated -					
Land	\$ 3,259,958	\$ -	\$ -	\$ -	\$ 3,259,958
Capital assets being depreciated:					
Land improvements	1,620,723	5,000	266,652	-	1,892,375
Buildings	35,843,629	-	88,000	(274,988)	35,656,641
Building improvements	22,087,068	146,863	1,263,175	-	23,497,106
Equipment	50,197,633	1,901,502	163,365	(121,215)	52,141,285
Construction in progress	1,887,314	1,478,115	(1,781,192)	-	1,584,237
Subtotal	111,636,367	3,531,480	-	(396,203)	114,771,644
Accumulated depreciation:					
Land improvements	1,725,207	58,590	-	-	1,783,797
Buildings	19,218,647	1,278,922	-	(179,571)	20,317,998
Building improvements	14,666,339	1,061,687	-	-	15,728,026
Equipment	43,203,199	2,153,607	-	(121,215)	45,235,591
Subtotal	78,813,392	4,552,806	-	(300,786)	83,065,412
Net capital assets being depreciated	32,822,975	(1,021,326)	-	(95,417)	31,706,232
Net capital assets	\$ 36,082,933	\$ (1,021,326)	\$ -	\$ (95,417)	\$ 34,966,190

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

Note 4 - Property and Equipment (Continued)

The cost of capital assets for the Hospital for December 31, 2012 is summarized below:

	2011	Additions	Transfers	Retirements	2012
Capital assets not being depreciated -					
Land	\$ 3,238,880	\$ -	\$ 21,078	\$ -	\$ 3,259,958
Capital assets being depreciated:					
Land improvements	1,604,282	-	16,441	-	1,620,723
Buildings	35,864,707	-	(21,078)	-	35,843,629
Building improvements	22,036,228	-	50,840	-	22,087,068
Equipment	49,314,513	916,169	55,293	(88,342)	50,197,633
Construction in progress	359,521	1,650,367	(122,574)	-	1,887,314
Subtotal	109,179,251	2,566,536	(21,078)	(88,342)	111,636,367
Accumulated depreciation:					
Land improvements	1,654,212	70,995	-	-	1,725,207
Buildings	17,833,835	1,384,812	-	-	19,218,647
Building improvements	13,505,600	1,160,739	-	-	14,666,339
Equipment	41,129,070	2,162,471	-	(88,342)	43,203,199
Subtotal	74,122,717	4,779,017	-	(88,342)	78,813,392
Net capital assets being depreciated	35,056,534	(2,212,481)	(21,078)	-	32,822,975
Net capital assets	\$ 38,295,414	\$ (2,212,481)	\$ -	\$ -	\$ 36,082,933

Capital asset activity for the component units for the years ended December 31, 2013 and 2012 included approximately \$19,000 and \$68,000 of additions and \$144,000 and \$147,000 of depreciation, respectively.

Depreciation expense on capital assets for the Hospital and component units for the years ended December 31, 2013 and 2012 totaled approximately \$4,697,000 and \$4,926,000, respectively.

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

Note 5 - Long-term Liabilities

Long-term liability activity for the year ended December 31, 2013 for both the Hospital and component units was as follows:

	2012	Current Year Additions	Current Year Reductions	2013	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	\$ 689,583	\$ -	\$ (125,833)	\$ 563,750	\$ 135,417
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing in December 2017)	9,558,500	-	(1,769,500)	7,789,000	1,838,500
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010B (maturing in December 2017)	9,558,500	-	(1,769,500)	7,789,000	1,838,500
Total long-term debt	19,806,583	-	(3,664,833)	16,141,750	3,812,417
Compensated absences - Hospital	1,328,522	1,104,999	(1,303,340)	1,130,181	565,091
Compensated absences - Component units	205,752	917,661	(830,662)	292,751	146,376
Total other liabilities	1,534,274	2,022,660	(2,134,002)	1,422,932	711,467
Total long-term debt and other liabilities	<u>\$ 21,340,857</u>	<u>\$ 2,022,660</u>	<u>\$ (5,798,835)</u>	<u>\$ 17,564,682</u>	<u>\$ 4,523,884</u>

Long-term liability activity for the year ended December 31, 2012 for both the Hospital and component units was as follows:

	2011	Current Year Additions	Current Year Reductions	2012	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	\$ 810,000	\$ -	\$ (120,417)	\$ 689,583	\$ 125,833
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing in September 2012)	503,000	-	(503,000)	-	-
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing in December 2017)	11,009,000	-	(1,450,500)	9,558,500	1,769,500
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010B (maturing in December 2017)	11,009,000	-	(1,450,500)	9,558,500	1,769,500
Total long-term debt	23,331,000	-	(3,524,417)	19,806,583	3,664,833
Compensated absences - Hospital	1,264,284	2,053,077	(1,988,839)	1,328,522	644,261
Compensated absences - Component units	213,799	759,459	(767,506)	205,752	102,876
Total other liabilities	1,478,083	2,812,536	(2,756,345)	1,534,274	747,137
Total long-term debt and other liabilities	<u>\$ 24,809,083</u>	<u>\$ 2,812,536</u>	<u>\$ (6,280,762)</u>	<u>\$ 21,340,857</u>	<u>\$ 4,411,970</u>

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

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 \$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, 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 2010A and Series 2010B Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. As of September 30, 2013, December 31, 2013, and March 31, 2014, the System failed the debt service coverage ratio requirement; however, the System received a waiver for these violations of this financial covenant from the lender.

The 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 \$8,104 outstanding as of December 31, 2013.

The following is a schedule by years of loans and bond principal and interest repayments as of December 31, 2013:

Years Ending December 31	Long-term Debt	
	Principal	Interest
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>\$ 16,141,750</u>	<u>\$ 1,400,752</u>

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

Note 5 - Long-term Liabilities (Continued)

In May 2014, the System refinanced the outstanding Series 2010A and Series 2010B Bonds and obtained additional financing totaling \$24,000,000. The maturity schedule above reflects all maturities prior to the refinancing of the Series 2010A and 2010B Bonds.

The Hospital leases various equipment and facilities under operating lease arrangements. Total rent expense for the years ended December 31, 2013 and 2012 was approximately \$1,462,000 and \$1,382,000, respectively. The following is a schedule of minimum operating lease payments by year as of December 31, 2013:

<u>Years Ending December 31</u>	<u>Minimum Annual Lease Payments</u>
2014	\$ 1,034,454
2015	1,002,540
2016	895,360
2017	600,270
Thereafter	3,778,349

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.

Note 6 - Risk Management (Continued)

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 2013, 2012, and 2011 member contribution rates for members of local government units was 10.00 percent of their annual covered salary. The 2013, 2012, and 2011 employer contribution rate for local government units was 14.00 percent. The Hospital's contributions to OPERS for the years ended December 31, 2013, 2012, and 2011 were approximately \$3,110,000, \$3,151,000, and \$3,091,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Note 7 - Defined Benefit Pension Plan (Continued)

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 2013, 2012, and 2011, 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 1.00 percent during the year ended December 31, 2013 and 4.00 percent during the years ended December 31, 2012 and 2011. The portion of the employer's contribution used to fund postemployment benefits for 2013, 2012, and 2011 was \$222,000, \$900,000, and \$883,000, respectively.

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. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved healthcare changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the healthcare fund after the end of the transition period.

Note 8 - Cost Report Settlements

Approximately 46 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.

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.

Berger Health System

Notes to Financial Statements December 31, 2013 and 2012

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 \$4,100,000 and \$3,900,000 for the years ended December 31, 2013 and 2012, 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*

Independent Auditor's Report

To Management and the Board of Governors
Berger Health System

We have audited, 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, the financial statements of Berger Health System (the "System"), which comprise the statement of net position as of December 31, 2013 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Berger Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-1 to be a material weakness.

To Management and the Board of Governors
Berger Health System

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-2 and 2014-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berger Health System's financial statements are free from 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*.

Berger Health System's Responses to Findings

Berger Health System's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Berger Health System's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Plante & Moran, PLLC

Columbus, Ohio
May 9, 2014

Berger Health System

Schedule of Findings and Questioned Costs Year Ended December 31, 2013

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-1	<p>Finding Type - Material weakness</p> <p>Criteria - Capital campaign revenue and receivables were not properly stated as of December 31, 2013.</p> <p>Condition - Capital campaign pledge receivables were overstated as of December 31, 2013 and capital campaign revenue was understated for the year ended December 31, 2013.</p> <p>Context - The pledge receivable and revenue recognized was based on incomplete and inaccurate data.</p> <p>Cause - The pledge tracker used to record the activity in the general ledger is a manual process that was not adequately reviewed to ensure that the tracker reconciled to the development department's pledge tracking software and appropriately reflected the activity and balances as of and for the year ended December 31, 2013.</p> <p>Effect - The pledge receivable balance was overstated as of December 31, 2013 and pledge revenue was understated for the year ended December 31, 2013. In addition, the pledge tracker used to record revenue and receivables did not agree to the amounts recorded in the general ledger.</p> <p>Recommendation - The System should implement a review process which includes review of proper cutoff of pledges received, recognition of payments, and proper aging of pledges receivable. In addition, the System should reconcile the pledge tracker maintained in the accounting department to the reports from the pledge tracking software used by the development department on a regular basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The pledge accounting process was developed late in 2013 as pledges were being received. The first revenue was booked in December. Management agrees that a reconciliation of the balance sheet general ledger had not yet been developed. However, management strongly believes that internal controls were in place to ensure the financial statements were not materially misstated. These controls include period comparison reviews by the financial analyst and accounting manager and discussions between the accounting manager, the vice president of finance, the executive director, and the chief executive officer each month specifically on the pledge amounts. These controls are a critical component of the overall internal control system at Berger Health System. The balance sheet accounts are now being reconciled monthly to the general ledger as recommended.</p>

Berger Health System

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2013

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-2	<p>Finding Type - Significant deficiency</p> <p>Criteria - The System did not recognize certain accounts payable and operating expenses in the appropriate period.</p> <p>Condition - Certain expenses incurred during 2013 were not recognized in the proper period.</p> <p>Context - The liability recorded improperly excluded certain invoices related to 2013 received subsequent to year end.</p> <p>Cause - The review of cut-off procedures performed was not sufficient to identify all expenses which should have been accrued as of the end of the year.</p> <p>Effect - Accounts payable and operating expenses were understated as of the end of the year.</p> <p>Recommendation - The System should ensure that the payables and accrued expenses manual process is reviewed by an individual independent of the process.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that a significant invoice was missed at year end by accounting which should have been included in AP. The root cause of the error was the failure to tie batch totals from the AP batch to the general ledger batch. This process error has been corrected and management will implement a review and approval process for year end to further strengthen the AP process. Management believes the weakness has been addressed.</p>

Berger Health System

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2013

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-3	<p>Finding Type - Significant deficiency</p> <p>Criteria - The System had not properly recorded the paid time-off liability for certain Berger Hospital employees at year end.</p> <p>Condition - An error in the payroll system accumulation process resulted in paid time-off balances for select individuals to be understated on the accrued benefits report used to recognize the paid time-off liability as of December 31, 2013. In addition, the general ledger balance was not adjusted to match the system accrued benefits report as of December 31, 2013.</p> <p>Context - The liability recorded was based on inaccurate underlying data.</p> <p>Cause - An error in the payroll system accumulation process resulted in paid time-off balances for select individuals to be understated on the accrued benefits report. In addition, the Hospital did not adjust the recorded liability to the accrued benefits report.</p> <p>Effect - The paid time-off liability for Berger Hospital was understated as of December 31, 2013.</p> <p>Recommendation - The System should scrutinize reports obtained from the payroll system to ensure that that balances reflected are accurate and appropriately reflected in the financial records.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management acknowledges that an error occurred in the ADP payroll processing at year end. The error was discovered by ADP and was corrected the following pay period. Unfortunately, the timing of the error and its correction crossed over year end. Accounting is now reviewing a report developed to monitor for this type of error and is reviewing it every pay period.</p>

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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
JUNE 12, 2014**