

Consolidated Financial Statements and Other Financial Information

Berger Health System

Years ended December 31, 2003 and 2002 with Report of Independent Auditors



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of Berger Health Systems, Pickaway County, prepared by Ernst & Young LLP, for the audit period January 1, 2003 through December 31, 2003. 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. Berger Health Systems is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 18, 2004

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Berger Health System

Consolidated Financial Statements
and Other Financial Information

Years ended December 31, 2003 and 2002

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Report of Independent Auditors

Board of Governors
Berger Health System

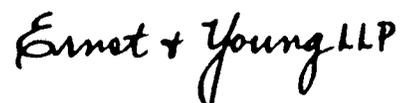
We have audited the accompanying consolidated balance sheets of Berger Health System (the System), a component unit of the City of Circleville, as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berger Health System as of December 31, 2003 and 2002, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated April 2, 2004 on our consideration of Berger Health System's internal control over financial reporting and our tests of its compliance with laws certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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



April 2, 2004

A COMPONENT UNIT OF CIRCLEVILLE, OHIO

MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

This section of Berger Health System’s (“System”) annual financial statements presents background information and management’s discussion and analysis of the System’s financial performance during the year ended December 31, 2003. This MD&A includes a discussion and analysis of the activities and results of the Primary Government Entity, which includes Berger Hospital, Pickaway Health Services and Pickaway Professional Services. This MD&A does not include a discussion and analysis of the activities and results of Berger Health Foundation.

This MD&A should be read together with the financial statements included in this report.

FINANCIAL HIGHLIGHTS

- The System’s fund balance increased by \$2.5 million and includes nonoperating income of \$0.9 million in 2003.
- During the year, the System’s net operating revenue increased by 16.8% to \$61.6 million while expenses increased by 18.7% to \$60.0 million. The resulting income from operations of \$1.6 million is a 27.2% decrease from 2002 operations.
- During the year, the System made the following significant capital acquisitions and improvements:
 - New and upgraded diagnostic capabilities, including new radiology and mammography equipment.
 - Added Cardiac Catheterizations as a new service line with space renovations and the purchase of equipment.
 - Purchase of approximately 4 acres in Commercial Point for the new Southern Point outpatient facility.
 - First phase of hospital-wide patient monitoring system.
 - Conversion of chilled water to variable flow.
 - Replaced the roof at 1280 North Court Street.
 - Prepared for new ambulatory surgery unit by relocating Human Resources, Administration, MIS and other office space to renovated space in PAB.
 - Initiated program to renovate patient rooms and nursing units.
 - New and upgraded patient record capabilities with the installation of new Dictaphone and record storage and archiving systems.

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

FINANCIAL STATEMENTS

The financial statements of the System present information about the System using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Balance Sheet includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System. All of the current year's revenue and expenses are accounted for in the Statement of Operations and Changes in Fund Balance. 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, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year.

FINANCIAL ANALYSIS

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

A summary of the System's Balance Sheets as of December 31, 2003 and 2002 is presented below (in thousands):

	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and investments	\$ 45,446	\$ 31,299	\$ 14,147	45.2%
Capital assets	33,481	31,095	2,386	7.7%
Other assets	<u>10,706</u>	<u>8,381</u>	<u>2,325</u>	<u>27.7%</u>
Total assets	<u>\$ 89,633</u>	<u>\$ 70,775</u>	<u>\$ 18,858</u>	<u>26.6%</u>
Current and other liabilities (excluding long-term debt)	\$ 10,721	\$ 8,184	\$ 2,537	31.0%
Long-term debt	<u>22,997</u>	<u>9,149</u>	<u>13,848</u>	<u>151.4%</u>
Total Liabilities	33,718	17,333	16,385	94.5%
General	55,704	53,216	2,488	4.7%
Restricted	<u>211</u>	<u>226</u>	<u>(15)</u>	<u>-6.6%</u>
Total fund balance	<u>55,915</u>	<u>53,442</u>	<u>2,473</u>	<u>4.6%</u>
Total liabilities and fund balance	<u>\$ 89,633</u>	<u>\$ 70,775</u>	<u>\$ 18,858</u>	<u>26.6%</u>

As can be seen in the above, fund balance increased to \$55.9 million in 2003, up from \$53.4 million in 2002. The change in fund balance resulted primarily from operating gains.

A summary of the System's Statements of Operations and Changes in Fund Balance for the years ended December 31, 2003 and 2002 is presented below (in thousands):

	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient service revenue	\$ 60,471	\$ 51,701	\$ 8,770	17.0%
Other	<u>1,152</u>	<u>1,035</u>	<u>117</u>	<u>11.3%</u>
Total revenue	61,623	52,736	8,887	16.9%
Expenses				
Salaries and benefits	28,385	22,647	5,738	25.3%
Supplies and other	22,275	19,939	2,336	11.7%
Provision for bad debt	5,052	4,503	549	12.2%
Depreciation and amortization	<u>4,331</u>	<u>3,477</u>	<u>854</u>	<u>24.6%</u>
Total expenses	<u>60,043</u>	<u>50,566</u>	<u>9,477</u>	<u>18.7%</u>
Gain from operations	1,580	2,170	(590)	-27.2%
Non-operating income	<u>908</u>	<u>1,858</u>	<u>(950)</u>	<u>-51.1%</u>
Excess of revenue over expenses	2,488	4,028	(1,540)	-38.2%
Change in restricted fund balance	(15)	(6)	(9)	150.0%
Total fund balance - beginning of year	<u>53,442</u>	<u>49,420</u>	<u>4,022</u>	<u>8.1%</u>
Total fund balance - end of year	<u>\$ 55,915</u>	<u>\$ 53,442</u>	<u>\$ 2,473</u>	<u>4.6%</u>

Sources of Revenue

During 2003, the System derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services, by payer, for the years ended December 31, 2003 and 2002, respectively.

Payer Mix	<u>2003</u>	<u>2002</u>
Medicare	40.9%	40.7%
Medicaid	16.0%	14.6%
Commercial	35.1%	36.0%
BWC	1.7%	2.2%
Self Pay	5.7%	6.0%
Other	0.6%	0.5%

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

OPERATING AND FINANCIAL PERFORMANCE

The System's performance improved in 2003 in comparison to 2002. This section will discuss highlights of 2003 operations and changes in activity.

Revenue

Net patient service revenue increased \$8.8 million in 2003 primarily as a result of the increase in inpatient ancillary utilization and the expansion of outpatient services. Further discussion follows:

- Overall activity of the System as measured by patient discharges adjusted for outpatient services (volume indicators) increased to 8,993 in 2003 from 8,375 in 2002. This was an increase of 7.4%. Contributing to this increase was the expansion of services at Berger Hospital such as cardiac catheterization, sleep lab, and radiology procedures.
- Inpatient activity levels (before adjusting for outpatients) increased in terms of patient days and admissions, resulting in patient days and admissions of 14,540 and 3,641, respectively, in 2003. This was an increase of 5.2% and 2.2%, respectively, over 2002 activity.
- Outpatient visits, which include Emergency and off-site visits, were 86,846, or 1.7%, above 2002 levels. Increases in outpatient activity were noted in surgery, with volumes in 2003 at 2,166, or 34.4% above 2002 levels; and cardiac catheterization and sleep lab procedures, which were mentioned earlier as new or enhanced service lines.
- Additionally, in 2003, \$500,000 in settlements under the Medicare program was recognized. This amount included \$314,000 in additional lump sum payments received after qualifying for Disproportionate Share (DSH) funds. DSH funds represent additional reimbursement dollars available to providers who care for a higher percentage of Medicaid customers than pre-determined averages.
- Included in net patient service revenue are charges for patient services waived under the System's charity care and Health Care Assurance Program (HCAP) policies. Both represent un-reimbursed charges incurred by the System in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and annual income levels. Based on established rates, gross charges of \$2.2 million were waived during 2003, a 78.8% increase over the prior year. Management's commitment to provide emergency care for all patients without regard to their ability to pay contributed to this increase.

Expense

Total operating expenses increased by \$9.5 million in 2003, which was attributed to the expansion of services at Berger Hospital. Further discussion follows:

- Employee compensation increased \$5.7 million as a result of the addition of clinical resources to meet the appropriate nursing staff needs and increased outpatient volumes. Merit increases awarded to employees were between 2-4% in 2003.
- The cost of supplies increased in comparison to 2002. This change was due to increased volumes as stated earlier and the number of complex surgical procedures requiring the use of expensive implants and prosthetics. Additionally, there was an increase in drug usage and cost. Although the total costs of supplies increased, supplies expense as a percent of net revenue actually remained consistent with 2002.
- Insurance expense increased 47.4% over 2002 as a result of the hospital's decision to switch to a self-insured approach to professional malpractice coverage. This resulted in the accrual of \$200,000 for possible self-insured risk amounts. However, the underlying factor for this decision was to reduce premium costs. Insurance expense net of the accrual was 16.1%, well below the national averages of 25-60% for malpractice premium increases.
- Amounts recorded as Bad Debt expense increased 12.2% over 2002, but was less than 2002 (4.5% vs 5.2%) as calculated as a percent of gross revenue.
- Depreciation and amortization expense increased by \$854,000, or 24.6% over 2002 due to the capital acquisitions and improvements made.

ACTUAL TO BUDGET PERFORMANCE

As specified in the Bylaws, the Board of Governors is required to approve an annual budget. The budget remains in effect the entire year, but may be updated, as needed, to reflect increases or decreases in service volume as well as approved variances. An actual to budget comparison and analysis is presented monthly in interim financial statements, and the 2003 information is summarized below (in thousands):

Revenue				
Net patient service revenue	\$ 60,471	\$ 58,051	\$ 2,420	4.2%
Other	<u>1,152</u>	<u>2,096</u>	<u>(944)</u>	<u>-45.0%</u>
Total revenue	61,623	60,147	1,476	2.5%
Expenses				
Salaries and benefits	28,385	27,682	703	2.5%
Supplies and other	22,275	23,418	(1,143)	-4.9%
Provision for bad debt	5,052	4,650	402	8.6%
Depreciation and amortization	<u>4,331</u>	<u>4,285</u>	<u>46</u>	<u>1.1%</u>
Total expenses	<u>60,043</u>	<u>60,035</u>	<u>8</u>	<u>0.0%</u>
Gain from operations	1,580	112	1,468	1310.7%
Nonoperating gains	<u>908</u>	<u>1,000</u>	<u>(92)</u>	<u>-9.2%</u>
Excess of revenue and gains over expenses	<u>\$ 2,488</u>	<u>\$ 1,112</u>	<u>\$ 1,376</u>	<u>123.7%</u>

In comparing actual versus budgeted 2003 results, the following variances occurred:

- The System finished 2003 with a gain from operations better than budget by \$1.5 million.
- Operating revenue was over budget by \$1.5 million or 2.5%, due to an overall increase in outpatient procedures in diagnostic imaging and surgery.
- Operating expenses were over budget by \$8,000 largely due the following areas:
 - Employee compensation was over budget by \$700,000 due to increased volumes of services and the Hospital initiated a campaign during the 2nd half of 2003 to decrease usage of contract agency staffing which transferred some of that expense to this area as some new hires occurred. Additionally, benefit costs such as health insurance and retirement costs were higher than anticipated.
 - Bad Debt expense was over budget as a result of the positive variance in gross patient revenue.
 - Other expenses were under budget by \$1.1 million with lower than expected expenditures for professional fees, repairs and utilities.

CAPITAL ASSETS

During 2003, the System invested \$19.0 million in a broad range of capital assets included in the table below (in thousands):

	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land improvements	\$ 2,122	\$ 1,629	\$ 493	30.3%
Buildings	39,002	35,132	3,870	11.0%
Equipment	<u>24,670</u>	<u>21,399</u>	<u>3,271</u>	<u>15.3%</u>
Total capital assets	65,794	58,160	7,634	13.1%
Less accumulated depreciation	(33,047)	(28,795)	(4,252)	14.8%
Construction in progress	<u>734</u>	<u>1,730</u>	<u>(996)</u>	<u>-57.6%</u>
Capital assets - net	<u>\$ 33,481</u>	<u>\$ 31,095</u>	<u>\$ 2,386</u>	<u>7.7%</u>

Capital assets have increased due to the fact that the System has expanded its patient service capacity to meet the needs of the community. Additionally, the System continues to replace equipment as it becomes obsolete as well as upgrade the capabilities of its information systems.

The table below shows the System's 2004 capital budget with projected spending of \$19.7 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(In thousands)
Building expansion	\$ 16,000
Expansion of services	796
Replacement equipment	1,794
Regulatory and maintenance items	566
Information systems and software	<u>523</u>
Total	<u>\$ 19,679</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 \$26.7 million in short-term and long-term notes and bonds, an increase from \$11.1 million at December 31, 2002. New long-term debt of \$26 million was incurred in 2003 for future capital expenditures and to retire \$9 million of old debt. Principal payments on long-term debt in 2003 were approximately \$0.9 million (new debt only). More detailed information about the System's long-term debt is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND 2004 BUDGET

The System's Board and management considered many factors when setting the 2004 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

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

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

CONTACTING THE SYSTEM'S FINANCIAL MANAGER

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

Berger Health System
Consolidated Balance Sheets

	December 31	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 3)</i>	\$ 428,829	\$ 788,367
Investments <i>(Note 3)</i>	18,159,531	5,799,095
Patient accounts receivable, less allowance for doubtful accounts (2003—\$3,100,000; 2002—\$2,327,000)	8,171,172	6,680,984
Estimated Medicare and Medicaid third-party settlements <i>(Note 4)</i>	323,718	-
Inventories	1,264,800	868,404
Prepaid expenses and other assets	739,698	725,842
Total current assets	29,087,748	14,862,692
Long term investments <i>(Note 3)</i>	26,857,140	24,711,645
Property and equipment, net <i>(Note 6)</i>	33,480,977	31,095,218
Other assets	207,628	105,635
Total assets	\$ 89,633,493	\$ 70,775,190

	December 31	
	2003	2002
Liabilities and fund balances		
Current liabilities:		
Accounts payable and accrued expenses	3,167,800	\$ 2,863,330
Accrued payroll and related liabilities	3,876,720	2,991,895
Estimated Medicare and Medicaid third-party settlements <i>(Note 4)</i>	-	374,758
Current portion of long-term debt <i>(Note 5)</i>	3,676,667	1,953,938
Total current liabilities	10,721,187	8,183,921
Long-term debt, less current portion <i>(Note 5)</i>	22,997,499	9,149,103
Fund balances:		
General	55,703,903	53,216,119
Restricted	210,904	226,047
	55,914,807	53,442,166
Total funds	\$ 89,633,493	\$ 70,775,190

See accompanying notes.

Berger Health System
Consolidated Statements of Operations

	Year ended December 31	
	2003	2002
Revenue:		
Net patient service revenue <i>(Note 2)</i>	\$ 60,471,172	\$ 51,701,112
Other revenue	1,151,648	1,034,621
Total revenue	61,622,820	52,735,733
Expenses:		
Wages and salaries	22,006,015	17,579,466
Benefits	6,378,779	5,067,753
Supplies and other	14,581,654	12,728,129
Purchased services	3,371,807	3,314,567
Provision for bad debts	5,052,427	4,503,275
Professional fees	2,833,950	2,982,530
Insurance	939,288	637,497
Depreciation and amortization	4,331,010	3,476,591
Interest expense	548,351	276,245
Total expenses	60,043,281	50,566,053
Gain from operations	1,579,539	2,169,680
Nonoperating gains (losses):		
Investment income <i>(Note 3)</i>	775,538	1,717,423
Donations and other	132,707	140,278
	908,245	1,857,701
Excess of revenue and gains over expenses	\$ 2,487,784	\$ 4,027,381

See accompanying notes.

Berger Health System

Consolidated Statements of Changes in Fund Balances

	Year ended December 31			
	2003		2002	
	General	Donor Restricted	General	Donor Restricted
Fund balance at beginning of year	\$ 53,216,119	\$ 226,047	\$ 49,188,738	\$ 231,615
Excess of revenue and gains over expenses	2,487,784	-	4,027,381	-
Assets released from restriction for operations	-	(15,143)	-	(5,568)
Fund balance at end of year	<u>\$ 55,703,903</u>	<u>\$ 210,904</u>	<u>\$ 53,216,119</u>	<u>\$ 226,047</u>

See accompanying notes.

Berger Health System

Consolidated Statements of Cash Flows - Restricted and Unrestricted Funds

	Year ended December 31	
	2003	2002
Cash flows from operating activities		
Patient service revenue	\$ 53,230,081	\$ 46,044,984
Other operating revenue	1,065,522	740,232
Payments to suppliers	(21,973,471)	(18,577,039)
Payments for compensation and benefits	(27,499,969)	(21,984,850)
Net cash flows provided by operating activities	4,822,163	6,223,327
Cash flows from noncapital financing activities		
Other nonoperating revenue	132,707	140,278
Assets released from restriction for operations	(15,143)	(5,568)
Net cash flows provided by noncapital financing activities	117,564	134,710
Cash flows from capital and related financing activities		
Acquisitions and construction	(6,716,769)	(5,863,239)
Proceeds from issuance of debt	26,000,000	10,000,000
Refunding of Series 2002 Bonds	(9,454,291)	-
Principal payments on debt	(974,584)	(620,709)
Interest payments on debt	(509,354)	(275,413)
Net cash flows provided by capital and related financing activities	8,345,002	3,240,639
Cash flows from investing activities		
Payments for investments	(14,710,326)	(11,171,073)
Interest received and realized/unrealized gains and losses	1,066,059	1,558,169
Net cash flows used in investing activities	(13,644,267)	(9,612,904)
Net decrease in cash and cash equivalents	(359,538)	(14,228)
Cash and cash equivalents at beginning of year	788,367	802,595
Cash and cash equivalents at end of year	\$ 428,829	\$ 788,367
Reconciliation of excess of revenues and gains over expenses to net cash used in operating activities		
Excess of revenues and gains over expenses	\$ 2,487,784	\$ 4,027,381
Adjustments to reconcile excess of revenues and gains over expenses to cash used in operating activities:		
Depreciation and amortization	4,331,010	3,476,591
Provision for bad debts	5,052,427	4,503,275
Net change in unrealized losses (gains) in investments	290,521	(159,254)
Investment income	(775,538)	(1,717,423)
Changes in assets and liabilities:		
Increase in patient accounts receivable	(6,542,615)	(5,636,994)
Increase in estimated Medicare and Medicaid third-party settlements	(698,476)	(19,134)
(Increase) decrease in inventories, prepaid expenses and other assets	(512,245)	616,470
Increase in accounts payable and other liabilities	1,189,295	1,132,415
Net cash flows provided by operating activities	\$ 4,822,163	\$ 6,223,327

See accompanying notes.

Berger Health System

Notes to Consolidated Financial Statements

December 31, 2003

1. Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Presentation

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

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

In 2003, the System adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which requires that basic financial statements for general purpose governments consist of Management's discussion and analysis (MD&A). The System has included MD&A, which introduce the basic financial statements and provide an analytical overview of the System's financial activities, on pages i through viii of the consolidated financial statements.

Use of Estimates

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

Patient Accounts Receivable and Revenue

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

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of 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, diagnosis related groups, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including adjustments made to estimated third-party settlements on prior year cost reports. Estimated third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

Hospital Care Assurance Program

The Hospital Care Assurance Program (HCAP) provides financial assistance to the System for care provided to the indigent. Under HCAP, the System is assessed amounts which are matched with federal funds and subsequently redistributed to the System. In fiscal 2003 and 2002, the System paid out received and recognized approximately \$(400,000) and \$35,000 respectively, in net HCAP distributions.

In 2001, the System applied to and was accepted into Medicaid's Supplemental Upper Limit Payment for Public Hospitals (UPL) program. Under the UPL, Berger makes semi-annual payments intergovernmental transfers to Medicaid in return for a larger supplemental inpatient hospital payment from Medicaid. The System received net payments under the UPL program of \$790,000 and \$693,000 in 2003 and 2002, respectively. These receipts have been recorded as a reduction of the System's contractual adjustments. As a result of the System's participation in the UPL program in the current year, the System may not be eligible to receive its 2004 HCAP distribution. Accordingly, the System has accrued \$243,000 included in estimated third party settlements at December 31, 2003 for the estimated reduction in HCAP distributions.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Activities

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

Cash and Cash Equivalents

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

Investments

Investments are recorded at market value based on quoted market prices. Investments in certificates of deposit and money market accounts are classified as current.

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

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

Inventories

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

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

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

Depreciation of property and equipment is provided by annual charges to expense on the straight-line method over the expected useful lives of the assets. The ranges of useful lives used in computing depreciation are 3 to 25 years for land improvements and equipment and 10 to 40 years for buildings.

Litigation

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

The System maintains “claims made” coverage for professional liability insurance and “occurrence based” coverage for general liability insurance. Effective October 5, 2003, the System implemented a policy of self-insuring its general and professional liability risks for individual losses up to specified amounts per claim. The System carries commercial insurance coverage for incidents which would exceed coverages specified by the self-insurance program.

General and professional liability claims for incidents which may give rise to litigation have been asserted against the System by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2003 that may result in the assertion of additional claims. At December 31, 2003, management is not aware of any contingent losses that fall within the limits of the System’s self-insurance program or exceed the limit of its insurance coverage or amounts accrued.

However, because the System’s excess professional liability insurance coverage (covering claims in excess of the limits of the self-insurance program) only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management has no basis to estimate the possible costs, if any, of claims in excess of the limits of the System’s self-insurance program and accordingly, has not accrued for them. In addition, management intends to maintain the current claims made excess professional liability insurance coverage to cover any unknown incidents that may be asserted.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Functional Expenses

The System provides general health care services to residents within its geographic region. General and administrative expenses are approximately \$8,634,000 and \$7,271,000 of total expenses in 2003 and 2002, respectively.

Donor Restricted Funds

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

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform with the 2003 presentation.

2. Net Patient Service Revenue

Net patient service revenues are comprised of the following:

	Year ended December 31	
	2003	2002
Patient charges at established rates	\$110,214,208	\$ 87,361,266
Contractual adjustments	(48,846,508)	(35,136,242)
Hospital Care Assurance Program	(399,915)	35,028
Charity care	(496,613)	(558,940)
Net patient service revenue	<u>\$ 60,471,172</u>	<u>\$ 51,701,112</u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits and Investments

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

	December 31, 2003		December 31, 2002	
	Cost	Market	Cost	Market
Cash and cash equivalents:	\$ 428,829	\$ 428,829	\$ 788,367	\$ 788,367
Investments:				
Certificates of deposit	\$ 1,500,000	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000
Money market accounts	16,659,531	16,659,531	4,799,095	4,799,095
	\$18,159,531	\$18,159,531	\$ 5,799,095	\$ 5,799,095
Long Term Investments:				
Government securities	\$26,817,407	\$26,857,140	\$24,381,391	\$24,711,645

Included in long-term investments at December 31, 2003 is \$26,000,000 in net proceeds from the Series 2003A, Series 2003B, and Series 2003C bonds described in Note 5.

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

	2003	2002
Change in unrealized gains (losses) on investments	\$ (290,521)	\$ 159,254
Interest and dividend income	1,066,059	1,558,169
	\$ 775,538	\$1,717,423

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits and Investments (continued)

Deposits

At December 31, 2003, the carrying amount of the System's bank deposits for all funds is \$18,629,000 as compared to bank balance of \$19,574,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$712,000 is covered by federal insurance programs and \$18,862,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

Investments

The System's investments are classified as available for sale and are recorded at fair market value. They are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the System or its agent in the System's name. Risk Categories 2 and 3 include investments, which are neither insured nor registered. Category 2 includes investments held by the counterparty's trust department (or agent) in the System's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the System's name. As of December 31, 2003, all investments were Category 1 investments.

In 2003, the System elected to contract with an external asset funds management company. This company makes investment decisions on behalf of the System and follows the guidelines set forth in the System's investment policy.

4. Medicare and Medicaid Programs and Third-Party Settlements

In the healthcare industry, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The System believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Berger Health System

Notes to Consolidated Financial Statements (continued)

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

The reimbursement for Medicare and Medicaid patients is subject to audit and final determination by the respective agencies. At December 31, 2003, final determinations have not been made for 2002 through 2003 for Medicare and 1998 through 2003 for Medicaid. The amounts reported on the financial statements represent estimated settlements outstanding at December 31, 2003 and 2002 which System management believes will approximate final settlements. The System recognized an increase in net patient service revenue of \$798,000 and \$553,000 in 2003 and 2002, respectively, on prior year estimated settlements.

Medicare and Medicaid represented 57% and 55% of charges at established rates for the years ended December 31, 2003 and 2002, respectively.

5. Long-Term Debt

Long-term debt consists of:

	December 31	
	2003	2002
\$2,000,000 loan agreement to the City of Circleville, Ohio, variable interest adjusted annually to a Pre-determined interest rate ranging from 5.036% to 5.400% (5.09% at December 31, 2003), retired by monthly principal and interest payments ranging from \$13,430 to \$13,838 starting December 1997 through December 2017	\$ 1,573,333	\$ 1,648,750
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002 (refunded in 2003)	–	5,454,291
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002B (refunded in 2003)	–	4,000,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A	6,005,000	–
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B	9,833,333	–
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C	9,262,500	–
Total long-term debt:	26,674,166	11,103,041
Less current portion	(3,676,667)	(1,953,938)
Long-term portion	\$22,997,499	\$ 9,149,103

Berger Health System

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

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

2004	\$ 3,676,667
2005	3,681,667
2006	3,686,667
2007	1,743,810
2008	1,739,524
Thereafter	12,145,831
Total	<u>\$26,674,166</u>

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

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$10,000,000 of Hospital Facilities Revenue Bonds (Series 2003B Bonds). The Series 2003B Bonds mature in quarterly principal installments ranging from \$167,000 in March 2004 to \$3,500,000 in September 2013, at a rate of 4.10 percent.

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio (the City) in which the City issued \$9,500,000 of Hospital Facilities Revenue Bonds (Series 2003C Bonds). The Series 2003C Bonds mature in quarterly principal installments of \$238,000 from March 2004 through September 2013, at a rate of LIBOR plus 1.25 percent.

The System incurred interest costs on long-term obligations of approximately \$548,000 and \$276,000 in 2003 and 2002, respectively. Interest paid was \$509,000 and \$245,000 in 2003 and 2002, respectively.

In conjunction with the Series 2003A, Series 2003B, and Series 2003C Bonds, the System is required to maintain certain financial covenants.

Berger Health System

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

Property and equipment consist of the following:

	December 31	
	2003	2002
Land and land improvements	\$ 2,122,010	\$ 1,629,240
Buildings and fixed equipment	39,002,242	35,132,173
Major moveable equipment	24,669,541	21,398,473
Construction-in-progress	734,210	1,730,301
Total	66,528,003	59,890,187
Less allowance for depreciation	(33,047,026)	(28,794,969)
Property and equipment, net	<u>\$ 33,480,977</u>	<u>\$ 31,095,218</u>

7. Employee Benefit Plans

Pension Plan

All Berger Hospital employees are required to participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple employer defined benefit pension plan. OPERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by OPERS for the year ended December 31, 2003 was approximately \$17,378,000.

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

The ORC provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent of eligible salary. The employer contribution rate for local government employer units was 13.55, 13.55, and 13.55 percent of covered payroll in 2003, 2002, and 2001, respectively (\$2,345,000, \$1,922,000, and \$1,600,000 contributed in 2003, 2002, and 2001, respectively).

Berger Health System

Notes to Consolidated Financial Statements (continued)

7. Employee Benefit Plans (continued)

Post-retirement Benefits

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of the employer's contribution to OPERS is set aside for the funding of postretirement health care. The ORC provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.31 percent of covered payroll; 5 percent was the portion that was used to fund health care for the year 2003. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The System's 2003 contribution to the OPEB plan was \$869,000.

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

As of December 31, 2003, the unaudited estimated net assets available for future OPEB payments were \$10.0 billion. The number of benefit recipients eligible for OPEB at December 31, 2003 was 364,881.

8. Tax Deferred Annuity Program

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

This plan permits eligible employees to make voluntary contributions on a pretax basis. This plan allows plan participants to invest their savings in various investments. The employer contribution expense incurred by PHS during 2003 and 2002 was approximately \$80,000 and \$77,000, respectively.

Report of Independent Auditors on Other Financial Information

Board of Governors
Berger Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for information on page 24 marked “unaudited”, on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

April 2, 2004

Berger Health System
 Details of Consolidated Balance Sheet

December 31, 2003

	Berger Hospital	Pickaway Health Services	Pickaway Professional Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Assets					
Current assets:					
Cash and cash equivalents	\$ 353,056	\$ 59,228	\$ 16,545	\$ -	\$ 428,829
Investments	18,159,531	-	-	-	18,159,531
Accounts receivable—net	7,102,054	695,747	222,433	150,938	8,171,172
Estimated Medicare and Medicaid third-party settlements	323,718	-	-	-	323,718
Inventories	1,264,800	-	-	-	1,264,800
Prepaid expenses and other assets	643,971	88,249	7,478	-	739,698
Total current assets	27,847,130	843,224	246,456	150,938	29,087,748
Net due from Pickaway Health Services and Pickaway Professional Services	14,539,753	-	-	(14,539,753)	-
Long term Investments	26,857,140	-	-	-	26,857,140
Property and equipment, net	33,294,016	186,961	-	-	33,480,977
Other assets	207,628	-	-	-	207,628
Total assets	<u>\$ 102,745,667</u>	<u>\$ 1,030,185</u>	<u>\$ 246,456</u>	<u>\$ (14,388,815)</u>	<u>\$ 89,633,493</u>

Berger Health System

Details of Consolidated Balance Sheet (continued)

	Berger Hospital	Pickaway Health Services	Pickaway Professional Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Liabilities and fund balances					
Current liabilities:					
Accounts payable and accrued expenses	\$ 3,158,463	\$ (8,549)	\$ 17,886	\$ -	\$ 3,167,800
Accrued payroll and related liabilities	3,031,895	712,579	132,246	-	3,876,720
Current portion of long-term debt	3,676,667	-	-	-	3,676,667
Total current liabilities	9,867,025	704,030	150,132	-	10,721,187
Due to Berger Hospital	-	14,272,263	267,490	(14,539,753)	-
Due to PHS	-	-	(150,938)	150,938	-
Long-term debt, less current portion	22,997,499	-	-	-	22,997,499
Fund balances (deficit):					
General	69,670,239	(13,946,108)	(20,228)	-	55,703,903
Restricted	210,904	-	-	-	210,904
	69,881,143	(13,946,108)	(20,228)	-	55,914,807
Total funds	<u>\$ 102,745,667</u>	<u>\$ 1,030,185</u>	<u>\$ 246,456</u>	<u>\$(14,388,815)</u>	<u>\$ 89,633,493</u>

Berger Health System

Details of Consolidated Statement of Operations

Year ended December 31, 2003

	Berger Hospital	Pickaway Health Services	Pickaway Professional Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Revenue:					
Net patient service revenue	\$ 55,191,344	\$ 4,002,779	\$ 1,277,049	\$ -	\$ 60,471,172
Other revenue	1,345,405	281,352	207,403	(682,512)	1,151,648
Total revenue	56,536,749	4,284,131	1,484,452	(682,512)	61,622,820
Expenses:					
Wages and salaries	17,377,703	3,775,240	853,072	-	22,006,015
Benefits	5,424,065	631,053	323,661	-	6,378,779
Supplies and other	14,271,928	590,046	122	(280,443)	14,581,654
Purchased services	3,398,601	138,886	95,068	(260,748)	3,371,807
Provision for bad debts	4,282,499	567,413	202,515	-	5,052,427
Professional fees	2,763,145	205,347	6,779	(141,321)	2,833,950
Insurance	656,659	258,979	23,651	-	939,288
Depreciation and amortization	4,305,349	25,661	-	-	4,331,010
Interest expense	548,351	-	-	-	548,351
Total expenses	53,028,300	6,192,625	1,504,868	(682,512)	60,043,281
Gain (loss) from operations	3,508,449	(1,908,494)	(20,416)	-	1,579,539
Nonoperating gains (losses):					
Investment Income	775,304	46	188	-	775,538
Donations	132,707	-	-	-	132,707
	908,011	46	188	-	908,245
Excess of revenue (expenses)	\$ 4,416,460	\$ (1,908,448)	\$ (20,228)	\$ -	\$ 2,487,784

Berger Health System

Details of Consolidated Statement of Changes in Fund Balances

Year ended December 31, 2003

	Berger Hospital	Pickaway Health Services	Pickaway Professional Services	Total Consolidated Balance
General funds:				
Fund balance—beginning of year	\$ 65,253,779	\$ (12,037,660)	\$ -	\$ 53,216,119
Excess of revenue (expenses)	4,416,460	(1,908,448)	(20,228)	2,487,784
Fund balance—end of year	\$ 69,670,239	\$ (13,946,108)	\$ (20,228)	\$ 55,703,903
Restricted funds:				
Fund balance—beginning of year	\$ 226,047	\$ -	\$ -	\$ 226,047
Assets released from restriction for operations	(15,143)	-	-	(15,143)
Fund balance—end of year	\$ 210,904	\$ -	\$ -	\$ 210,904

Berger Health System
Schedule of Financial and Statistical
Highlights—Hospital Only (Unaudited)
5 Year Summary—1999 through 2003

	December 31				
	2003	2002	2001	2000	1999
Net days of revenue in net accounts receivable	49.3	46.1	42.5	71.3	66.4
Patient days:					
Medical and surgical	8,389	8,159	6,768	5,948	5,656
Intensive care	1,857	1,977	1,942	1,918	1,474
Rehabilitation	3,210	2,761	2,638	2,217	1,746
Maternity	1,084	922	862	672	524
Total patient days	14,540	13,819	12,210	10,755	9,400
Departmental data:					
Operations (cases)	5,117	3,928	2,796	3,053	3,211
Radiology procedures	39,831	37,692	34,108	33,987	29,934
Laboratory procedures	485,945	439,299	371,372	328,642	315,654
Emergency room visits	28,805	28,316	27,122	27,736	25,449
Cardiopulmonary procedures	36,885	31,130	71,498	59,566	55,653

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

Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System (the System) as of and for the year ended December 31, 2003, and have issued our report thereon dated April 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

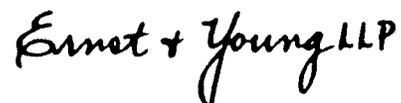
Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the System in a separate letter dated April 2, 2004.

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



April 2, 2004

Berger Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

Part I—Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? yes X no

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

Noncompliance material to financial statements noted? yes X no

Federal Awards Section

Not applicable.

Berger Health System

Schedule of Findings and Questioned Costs—Continued

Part II—Schedule of Financial Statement Findings

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

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

BERGER HEALTH SYSTEMS

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 31, 2004**