

Berger Health System

**Financial Report
with Additional Information
December 31, 2005**



**Auditor of State
Betty Montgomery**

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, 2005 through December 31, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 19, 2006

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Berger Health System

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Independent Auditor's Report

To the Board of Governors
Berger Health System

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Berger Health System (the "System"), a component unit of the City of Circleville, as of December 31, 2005 and 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System, a component unit of the City of Circleville, at December 31, 2005 and 2004, and the respective changes in financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006 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, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Morse, PLLC

February 10, 2006

Berger Health System

Management's Discussion and Analysis

This section of Berger Health System's (the "System") annual financial statements presents background information and management's discussion and analysis of Berger Hospital's (the "Hospital") financial performance during the year ended December 31, 2005.

This management's discussion and analysis should be read together with the financial statements included in this report as they present the primary government entity (the "Hospital") and component units using the methods described in Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

Financial Highlights

- The Hospital's net assets increased to \$56.3 million in 2005. This was a \$345,000 increase from 2004.
- During the year, the Hospital's net operating revenue increased by 7.5 percent to \$58.6 million while expenses increased by only 7.3 percent to \$55.6 million.
- Throughout 2005, the Hospital made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations and/or funds secured for capital acquisitions:
 - New/upgraded diagnostic capabilities, including chemistry analyzer, EKG management systems, and hematology analyzer
 - Purchase of a scanning, imaging, and archiving system for the digitization of medical records and other paper documents
 - Upgraded the System's health information network servers
 - Purchased approximately 150 acres of property in northern Pickaway County for future expansion and market development
 - Completed main campus renovations and a main campus medical office building
 - Started construction on a new outpatient diagnostic center in southern Pickaway County

Financial Statements

The financial statements of the Hospital present information about the Hospital 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 Hospital'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 Hospital, and assessing the liquidity and financial flexibility of the Hospital.

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

Berger Health System

Management's Discussion and Analysis (Continued)

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

The Hospital changed the method by which it is presenting its component units in the audited financial statements in 2005. The change in presentation was in order to comply with the provisions of Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

Financial Analysis

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

A summary of the Hospital's balance sheet as of December 31, 2005, 2004, and 2003 is presented below (in thousands). As can be seen, net assets increased to \$56.3 million in 2005, up from \$56.0 million in 2004 and \$55.3 million in 2003.

	<u>2005</u>	<u>2004</u>	<u>\$ Change 2005-2004</u>	<u>% Change 2005-2004</u>	<u>2003</u>
Current assets	\$ 39,338	\$ 45,350	\$ (6,012)	-13.3%	\$ 45,370
Capital assets	47,035	41,850	\$ 5,185	12.4%	33,294
Other assets	<u>126</u>	<u>114</u>	<u>\$ 12</u>	<u>10.5%</u>	<u>9,542</u>
Total assets	<u>\$ 86,499</u>	<u>\$ 87,314</u>	<u>\$ (815)</u>	<u>-0.9%</u>	<u>\$ 88,206</u>
Current and other liabilities	\$ 11,281	\$ 12,005	\$ (724)	-6.0%	\$ 9,868
Long-term debt	<u>18,879</u>	<u>19,315</u>	<u>\$ (436)</u>	<u>-2.3%</u>	<u>22,997</u>
Total Liabilities	30,160	31,320	\$ (1,160)	-3.7%	32,865
General	56,333	55,975	\$ 358	0.6%	55,130
Restricted	<u>6</u>	<u>19</u>	<u>\$ (13)</u>	<u>-68.4%</u>	<u>211</u>
Total net assets	<u>56,339</u>	<u>55,994</u>	<u>\$ 345</u>	<u>0.6%</u>	<u>55,341</u>
Total liabilities and net assets	<u>\$ 86,499</u>	<u>\$ 87,314</u>	<u>\$ (815)</u>	<u>-0.9%</u>	<u>\$ 88,206</u>

Berger Health System

Management's Discussion and Analysis (Continued)

A summary of the Hospital's statements of revenue, expenses, and changes in net assets for the years ended December 31, 2005, 2004, and 2003 is presented below (in thousands).

	<u>2005</u>	<u>2004</u>	<u>\$ Change 2005-2004</u>	<u>% Change 2005-2004</u>	<u>2003</u>
Revenue					
Net patient revenue	\$ 57,172	\$ 53,289	\$ 3,883	7.3%	\$ 50,909
Other	<u>1,434</u>	<u>1,208</u>	<u>226</u>	<u>18.7%</u>	<u>1,345</u>
Total revenue	58,606	54,497	4,109	7.5%	52,254
Expenses					
Salaries and benefits	27,485	25,025	2,460	9.8%	22,802
Supplies and other	22,713	22,258	455	2.0%	21,091
Depreciation	<u>5,440</u>	<u>4,571</u>	<u>869</u>	<u>19.0%</u>	<u>4,305</u>
Total expenses	<u>55,638</u>	<u>51,854</u>	<u>3,784</u>	<u>7.3%</u>	<u>48,198</u>
Gain (Loss) from operations	2,968	2,643	325	12.3%	4,056
Non-operating income	<u>518</u>	<u>(7)</u>	<u>525</u>	<u>-7500.0%</u>	<u>360</u>
Excess of revenue over expenses	3,486	2,636	850	32.2%	4,416
Change in restricted fund balance	(3,141)	(1,983)	(1,158)	58.4%	(14,555)
Total net assets - beginning of year as restated	<u>55,994</u>	<u>55,341</u>	<u>653</u>	<u>1.2%</u>	<u>65,480</u>
Total net assets - end of year	<u>\$ 56,339</u>	<u>\$ 55,994</u>	<u>\$ 345</u>	<u>0.6%</u>	<u>\$ 55,341</u>

Operating and Financial Performance

Sources of Revenue

During 2005, the Hospital 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, 2005, 2004, and 2003.

<u>Payer</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	42.2%	39.4%	40.9%
Medicaid	17.4%	16.5%	16.0%
Commercial	32.8%	36.2%	35.1%
BWC	1.5%	1.8%	1.7%
Self Pay	5.5%	5.5%	5.7%
Other	0.6%	0.6%	0.6%

Berger Health System

Management's Discussion and Analysis (Continued)

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

Revenue

Net patient revenue increased \$3.9 million in 2005 primarily as a result of the increase in outpatient utilization and the expansion of outpatient services. Further discussion follows:

- Overall activity of the Hospital, as measured by patient discharges adjusted for outpatient services, increased to 9,000 in 2005 from 8,883 in 2004. This was an increase of 1.32 percent. Contributing to this increase were the variables described below:
 - ◆ Inpatient activity levels during 2005 decreased in terms of patient days and increased in terms of admissions, resulting in patient days and admissions of 13,917 and 3,309, respectively. Inpatient rehabilitation realized a decrease of 907 patient days as a result of limiting admissions to conform to the Medicare 75 percent rule.
 - ◆ Outpatient visits, which include emergency and off-site visits, were 91,049, or 1.57 percent above 2004 levels. Increases in outpatient activity were noted in surgery, with total outpatient surgeries in 2005 at 2,325, or 20.53 percent above 2004. Emergency department visits were 30,161, or 10.18 percent above 2004.
- During 2005, \$741,000 in net receipts under the Health Care Assurance Program (HCAP) was recognized. HCAP is a State program that helps hospitals partially offset losses from treating indigent patients by generating matching funds from the federal government through assessments made to each Ohio hospital.
- Included in net patient service revenue are charges for patient services waived under the Hospital's charity care and HCAP policies. Both represent un-reimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and income levels. Based on established rates, gross charges of \$3.6 million were waived during 2005. Management's commitment to provide care for all patients without regard to their ability to pay and the growing number of uninsured continues to contribute to these levels.

Expense

Total operating expenses increased by \$3.8 million in 2005, which was attributed to the continued expansion of services at the Hospital. Further discussion follows:

- Salaries and wages increased \$1.1 million from FY 2004 as a result of the addition of clinical resources to meet the appropriate staffing levels and merit increase.
- Benefits increased \$1.4 million from FY 2004, as actual health insurance claims were higher than anticipated in FY 2005.

Berger Health System

Management's Discussion and Analysis (Continued)

- The cost of supplies increased in comparison to 2004. This change was due to the number of complex surgical procedures requiring the use of expensive implants and prosthetics. Additionally, there was an increase in drug usage and cost with the growth of the oncology service line.
- Amounts recorded as bad debt expense decreased 1.5 percent from 2004.
- Depreciation expense increased by \$868,000, or 19.0 percent over 2004.
- Insurance expense increased 32.8 percent from 2004 as a result of increased premiums for professional and general liability premiums.

Statement of Cash Flows

Another way to assess the Hospital'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.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>2003</u>
Cash provided (used) by:				
Operating Activities	\$ 6,190	\$ 10,670	\$ (4,480)	\$ 4,689
Capital and Related Financing Activities	(16,580)	(19,495)	\$ 2,915	8,926
Investing Activities	<u>10,924</u>	<u>9,050</u>	<u>\$ 1,874</u>	<u>(14,021)</u>
Net increase (decrease) in cash	534	225	309	(406)
Cash - Beginning of the year	<u>578</u>	<u>353</u>	<u>\$ 225</u>	<u>759</u>
Cash - End of the year	<u>\$ 1,112</u>	<u>\$ 578</u>	<u>\$ 534</u>	<u>\$ 353</u>

The Hospital's liquidity was consistent with 2004. The following discussion amplifies the overview of cash flows presented above:

- Cash generated by operations was \$6.7 million in 2005 (\$10.6 million in 2004).
- Cash used was \$9.0 million for fixed asset additions in 2005 (\$13.0 million in 2004) and \$3.9 million for debt repayments (\$3.6 million in 2004). There was an equity transfer of \$3.1 million to component units (\$2.1 million in 2004).
- Cash provided by investing activities increased \$1.6 million over 2004.

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

Berger Health System

Management's Discussion and Analysis (Continued)

Actual to Budget Performance

As specified in the Hospital'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 2005 results are summarized below (in thousands):

	<u>2005 Actual</u>	<u>2005 Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue				
Net patient revenue	\$ 57,172	\$ 57,834	\$ (662)	-1.1%
Other	<u>1,434</u>	<u>1,166</u>	<u>268</u>	<u>23.0%</u>
Total revenue	58,606	59,000	(394)	-0.7%
Expenses				
Salaries and benefits	27,485	27,173	312	1.1%
Supplies and other	22,713	24,499	(1,786)	-7.3%
Depreciation	<u>5,440</u>	<u>4,951</u>	<u>489</u>	<u>9.9%</u>
Total expenses	<u>55,638</u>	<u>56,623</u>	<u>(985)</u>	<u>-1.7%</u>
Gain (Loss) from operations	2,967	2,377	590	24.8%
Non operating income	<u>518</u>	<u>610</u>	<u>(92)</u>	<u>-15.1%</u>
Excess of revenue over expenses	<u>\$ 3,485</u>	<u>\$ 2,987</u>	<u>\$ 498</u>	<u>16.7%</u>

In comparing actual versus budgeted 2005 results, the following variances are noted:

- The Hospital finished 2005 with a gain from operations less than budget by \$591,000. The major contributors to this variance are described below:
 - ◆ Operating revenue was under budget by \$394,000 or (.7 percent), due to higher than budgeted contractual rates.
 - ◆ Employee compensation was over budget by \$312,000 due to increased health insurance expense.
 - ◆ Depreciation expense was over budget by \$489,000 due to the capitalization of the medical office building.
 - ◆ Supplies and other expenses were under budget by \$1,786,000.

Berger Health System

Management's Discussion and Analysis (Continued)

- ◆ Physician recruitment was under budget by \$645,000 due to lower than budgeted expenses for physician recruitment and retainment.
- Physician services was under budget by \$150,000 due to lower than budgeted expense for house officers.

Capital Assets

During 2005, the Hospital invested \$19.7 million in a broad range of capital assets included in the table below (in thousands):

	<u>2005</u>	<u>2004</u>	<u>\$ Change 2005-2004</u>	<u>% Change 2005-2004</u>	<u>2003</u>
Land and land improvements	\$ 5,000	\$ 2,456	\$ 2,544	103.6%	\$ 2,122
Buildings	49,741	35,621	14,120	39.6%	35,333
Equipment	<u>33,877</u>	<u>30,788</u>	<u>3,089</u>	<u>10.0%</u>	<u>28,012</u>
Total capital assets	88,618	68,865	\$ 19,753	28.7%	65,467
Less accumulated depreciation	(42,383)	(36,957)	\$ (5,426)	14.7%	(32,896)
Construction in progress	<u>801</u>	<u>9,942</u>	<u>\$ (9,141)</u>	<u>-91.9%</u>	<u>723</u>
Capital assets - net	<u>\$ 47,036</u>	<u>\$ 41,850</u>	<u>\$ 5,186</u>	<u>12.4%</u>	<u>\$ 33,294</u>

Capital assets have increased due to the fact that the Hospital has:

- Purchased approximately 150 acres of property in northern Pickaway County for future expansion and market development
- Completed main campus renovations and a main campus medical office building
- Started construction on a new outpatient diagnostic center in southern Pickaway County

Reduced construction in progress reflects the capitalization of the medical office building during 2005.

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

Berger Health System

Management's Discussion and Analysis (Continued)

The table below shows the Hospital's 2006 capital budget with projected spending of \$1.0 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(In thousands)
Information system upgrade	\$ 304
Expansion of services	138
Replacement equipment	558
Total	<u>\$ 1,000</u>

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

Long-term Debt

At year end, the Hospital had \$23.1 million in short-term and long-term notes and bonds, a slight increase from \$23.0 million at December 31, 2004. Principal payments on long-term debt in 2005 were approximately \$3.9 million. More detailed information about the Hospital's long-term debt is presented in the notes to the financial statements.

Economic Factors and 2006 Budget

The Hospital's board and management considered many factors when setting the 2006 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/refinancing to maximize balance sheet performance.

Berger Health System

Management's Discussion and Analysis (Continued)

Contacting the System's Financial Officer

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

Berger Health System

Balance Sheet

	December 31, 2005		December 31, 2004	
	Hospital	Component Units	Hospital	Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,111,598	\$ 6,284	\$ 578,448	\$ 133,833
Restricted cash and cash equivalents	2,592,435	-	132,617	-
Short-term investments (Note 2)	15,761,312	-	19,153,338	-
Net patient accounts receivable (Note 3)	6,641,426	441,667	5,733,050	609,954
Prepaid expenses and other	744,763	115,650	671,408	107,423
Inventory	1,247,339	-	1,304,796	-
Total current assets	28,098,873	563,601	27,573,657	851,210
Long-term Investments (Note 2)	11,238,680	296,618	17,776,980	305,667
Capital Assets (Note 4)	47,035,661	550,040	41,849,659	197,449
Other Assets - Bond issue costs	125,823	-	113,745	-
Total assets	\$ 86,499,037	\$ 1,410,259	\$ 87,314,041	\$ 1,354,326
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt (Note 5)	\$ 4,252,221	\$ -	\$ 3,682,084	\$ -
Accounts payable	2,239,913	175,965	5,125,623	52,646
Cost report settlements payable	585,837	-	98,488	-
Accrued liabilities and other:				
Accrued compensation and related accruals	3,139,532	602,013	2,213,919	612,415
Accrued interest	73,437	-	61,624	-
Total current liabilities	10,290,940	777,978	11,181,738	665,061
Long-term Debt (Note 5)	18,878,586	-	19,314,999	-
Other Liabilities				
Accounts payable	-	-	-	87,046
Accrued compensated absences (Note 3)	990,263	194,877	822,819	204,374
Total liabilities	30,159,789	972,855	31,319,556	956,481
Net Assets				
Invested in capital assets - Net of related debt	23,904,854	550,040	18,852,576	197,449
Restricted - Expendable for capital improvements, debt service, and other purposes	6,046	349,709	19,879	305,667
Unrestricted	32,428,348	(462,345)	37,122,030	(105,271)
Total net assets	56,339,248	437,404	55,994,485	397,845
Total liabilities and net assets	\$ 86,499,037	\$ 1,410,259	\$ 87,314,041	\$ 1,354,326

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

Berger Health System

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2005		December 31, 2004	
	Hospital	Component Units	Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 57,171,733	\$ 4,766,154	\$ 53,288,977	\$ 4,748,096
Other	1,434,387	769,132	1,208,338	961,951
Total operating revenues	58,606,120	5,535,286	54,497,315	5,710,047
Operating Expenses				
Salaries and wages	19,868,346	5,412,689	18,815,027	5,237,774
Employee benefits and payroll taxes	7,616,381	1,197,752	6,210,618	1,144,025
Operating supplies and other	15,907,120	1,219,102	15,057,914	1,030,154
Professional services and consultant fees	2,729,690	16,199	3,408,626	87,055
Purchased services	3,450,899	243,426	3,319,449	207,289
Insurance	625,445	547,396	470,862	246,679
Depreciation and amortization	5,439,795	31,824	4,571,921	30,729
Total operating expenses	55,637,676	8,668,388	51,854,417	7,983,705
Operating Income (Loss)	2,968,444	(3,133,102)	2,642,898	(2,273,658)
Other Income (Expense)				
Interest income	833,853	524	638,618	59
Gain on sale of property	22,878	-	31,000	-
Contributions	137,125	-	168,966	-
Interest expense	(475,609)	-	(845,454)	-
Total other income (expense)	518,247	524	(6,870)	59
Excess of Revenue Over (Under) Expenses	3,486,691	(3,132,578)	2,636,028	(2,273,599)
Contribution from (to) Component Units	(3,128,095)	3,128,095	(2,098,025)	2,098,025
Net Assets Released from Restriction	(13,833)	44,042	115,092	-
Increase (Decrease) in Net Assets	344,763	39,559	653,095	(175,574)
Net Assets - Beginning of year	55,994,485	397,845	55,341,390	573,419
Net Assets - End of year	\$ 56,339,248	\$ 437,404	\$ 55,994,485	\$ 397,845

Berger Health System

Statement of Cash Flows

	Year Ended			
	December 31, 2005		December 31, 2004	
	Hospital	Component Units	Hospital	Component Units
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 56,263,357	\$ 4,934,441	\$ 54,657,981	\$ 5,184,006
Cash payments to suppliers for services and goods	(25,127,413)	(1,998,077)	(20,238,473)	(1,429,264)
Cash payments to employees and for professional services	(26,379,857)	(6,630,340)	(24,957,844)	(6,409,835)
Other operating revenue received	1,434,387	769,132	1,208,338	961,951
Net cash provided by (used in) operating activities	6,190,474	(2,924,844)	10,670,002	(1,693,142)
Cash Flows from Investing Activities				
Cash received from investments	15,242,687	358,758	39,374,484	-
Cash paid for investments	(5,312,361)	(349,709)	(31,133,500)	(305,665)
Interest income and other	993,856	524	808,584	59
Net cash provided by (used in) investing activities	10,924,182	9,573	9,049,568	(305,606)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(9,109,506)	(384,415)	(12,980,503)	(41,217)
Repayment of long-term debt	(3,866,276)	-	(3,677,083)	-
Other capital-related contributions	(13,833)	44,042	115,092	-
Contributions from (to) component units	(3,128,095)	3,128,095	(2,098,025)	2,098,025
Cash paid for interest	(463,796)	-	(853,659)	-
Net cash provided by (used in) capital and related financing activities	(16,581,506)	2,787,722	(19,494,178)	2,056,808
Net Increase (Decrease) in Cash and Cash Equivalents	533,150	(127,549)	225,392	58,060
Cash and Cash Equivalents - Beginning of year	578,448	133,833	353,056	75,773
Cash and Cash Equivalents - End of year	\$ 1,111,598	\$ 6,284	\$ 578,448	\$ 133,833

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

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, 2005		December 31, 2004	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 2,968,444	\$ (3,133,102)	\$ 2,642,898	\$ (2,273,658)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	5,439,795	31,824	4,571,921	30,729
Provision for bad debts	4,143,750	402,317	4,207,892	334,786
Changes in assets and liabilities:				
Patient accounts receivable	(5,052,126)	(234,030)	(2,838,888)	101,124
Inventories and other assets	(15,898)	(8,227)	(220,732)	40,987
Accounts payable and accrued expenses	(1,780,840)	16,374	1,884,705	72,890
Cost report settlements	487,349	-	422,206	-
Net cash (used in) provided by operating activities	<u>\$ 6,190,474</u>	<u>\$ (2,924,844)</u>	<u>\$ 10,670,002</u>	<u>\$ (1,693,142)</u>

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

Berger Health System

Component Units - Combining Balance Sheet December 31, 2005

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

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

Berger Health System

Component Units - Combining Balance Sheet (Continued) December 31, 2004

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 116,199	\$ (26,839)	\$ 44,473	\$ 133,833
Patient accounts receivable	489,336	120,618	-	609,954
Prepaid expenses and other	93,375	14,048	-	107,423
Total current assets	698,910	107,827	44,473	851,210
Long-term Investments	-	-	305,667	305,667
Capital Assets	197,449	-	-	197,449
Total assets	\$ 896,359	\$ 107,827	\$ 350,140	\$ 1,354,326
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	\$ 48,246	\$ 4,160	\$ 240	\$ 52,646
Accrued compensation	484,751	123,714	3,950	612,415
Total current liabilities	532,997	127,874	4,190	665,061
Other Liabilities				
Notes and advances from affiliates	-	-	87,046	87,046
Accrued compensated absences	172,841	31,533	-	204,374
Total liabilities	705,838	159,407	91,236	956,481
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	197,449	-	-	197,449
Restricted - Expendable for capital improvements, debt service, and other purposes	-	-	305,667	305,667
Unrestricted	(6,928)	(51,580)	(46,763)	(105,271)
Total net assets (deficit)	190,521	(51,580)	258,904	397,845
Total liabilities and net assets (deficit)	\$ 896,359	\$ 107,827	\$ 350,140	\$ 1,354,326

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

Berger Health System

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

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

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Continued) Year Ended December 31, 2004

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Total
Operating Revenues				
Net patient service revenue	\$ 3,778,870	\$ 969,226	\$ -	\$ 4,748,096
Other	618,570	295,578	47,803	961,951
Total operating revenues	4,397,440	1,264,804	47,803	5,710,047
Operating Expenses				
Salaries and wages	4,314,158	889,313	34,303	5,237,774
Employee benefits and payroll taxes	752,411	386,478	5,136	1,144,025
Operating supplies and expenses	823,737	177,013	29,404	1,030,154
Professional services and consultant fees	87,055	-	-	87,055
Purchased services	181,566	-	25,723	207,289
Insurance	246,679	-	-	246,679
Depreciation and amortization	30,729	-	-	30,729
Total operating expenses	6,436,335	1,452,804	94,566	7,983,705
Operating Loss	(2,038,895)	(188,000)	(46,763)	(2,273,658)
Other Income - Interest income	34	25	-	59
Excess of Expenses Over Revenue	(2,038,861)	(187,975)	(46,763)	(2,273,599)
Transfer from Affiliate	1,752,289	40,069	305,667	2,098,025
(Decrease) Increase in Net Assets	(286,572)	(147,906)	258,904	(175,574)
Net Assets - Beginning of year	477,093	96,326	-	573,419
Net Assets (Deficit) - End of year	\$ 190,521	\$ (51,580)	\$ 258,904	\$ 397,845

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - 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 operated by a board of governors pursuant to an agreement between the City of Circleville, Ohio and Pickaway County. The City of Circleville is the holder of legal title to the System. Members of the board of governors are appointed by the Board of County Commissioners and the mayor of the City (four each) with the consent of City Council. The mayor of the City of Circleville, by virtue of their position, is the chairperson of the board of governors. The System is considered a political subdivision of a state and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code.

The accompanying basic financial statements include the accounts of Berger Hospital, Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation (collectively, the "System"). Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation are collectively the "component units" of the Hospital.

Pickaway Health Services (PHS) provides health care and physician services in the geographic area served by the Hospital. PHS, which operates exclusively for the benefit and support of the System, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and also qualifies as a public charity under Section 509 of the IRC. PHS received its 501(c)(3) status from the IRS on February 28, 1996.

Pickaway Professional Services (PPS) provides anesthesia care and related professional services in the geographic area served by the Hospital. It was registered by the State of Ohio on March 14, 2002.

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

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The System follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the System's financial activities.

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

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

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

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

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

Investments - Investments include certificates of deposit, money market accounts, and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from income from operations.

Patient Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

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

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

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

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

Compensated Absences - Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the System may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

Restricted Resources - When the System has both restricted and unrestricted resources available to finance a particular program, it is the System's policy to use unrestricted resources before restricted resources.

Classification of Net Assets - Net assets of the System are classified in three components. Net assets invested in capital assets - net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System, including amounts deposited with trustees as required by revenue note indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Contributions - The System reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

Operating Income (Loss) - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care - The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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.

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

Note 2 - Deposits and Investments

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

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

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

Active Funds - 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 - 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 - 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

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

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 for date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are 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. At year end, the System had approximately \$294,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

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

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

department or agent:

Type of Investment	Carrying Value	How Held
U.S. Agency Bonds	\$ 25,138,000	Counterparty
STAR Ohio	227,000	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
US Agency Bonds	\$ 25,138,000	1.07 years
STAR Ohio	227,000	0.00 years

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
U.S. Agency Bonds	\$ 25,138,000	AAA	Standard & Poor's
STAR Ohio	227,000	AAA	Standard & Poor's

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below.

	Hospital	
	2005	2004
Patient accounts receivable	\$ 14,181,426	\$ 12,983,050
Less:		
Allowance for uncollectible accounts	(2,480,000)	(2,330,000)
Allowance for contractual adjustments	(5,060,000)	(4,920,000)
Net patient accounts receivable	<u>\$ 6,641,426</u>	<u>\$ 5,733,050</u>

	Component Units	
	2005	2004
Patient accounts receivable	\$ 1,391,667	\$ 1,429,954
Less:		
Allowance for uncollectible accounts	(330,000)	(320,000)
Allowance for contractual adjustments	(620,000)	(500,000)
Net patient accounts receivable	<u>\$ 441,667</u>	<u>\$ 609,954</u>

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

	2005 (%)	2004 (%)
Medicare	35	32
Medicaid	9	9
Commercial insurance and HMOs	35	40
Self-pay	21	19
Total	<u>100</u>	<u>100</u>

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 4 - Capital Assets

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

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

Cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Retirements	2004
Land	\$ 1,091,561	\$ 295,567	\$ -	\$ 1,387,128
Land improvements	1,030,449	38,507	-	1,068,956
Building	23,033,376	341,953	(315,765)	23,059,564
Building improvements	12,298,731	317,055	(54,342)	12,561,444
Equipment	28,012,250	2,805,133	(29,570)	30,787,813
Construction in progress	723,189	9,219,159	-	9,942,348
Total	66,189,556	13,017,374	(399,677)	78,807,253
Less accumulated depreciation:				
Land improvements	(761,326)	(66,178)	-	(827,504)
Buildings	(7,914,135)	(809,707)	315,765	(8,408,077)
Building improvements	(6,076,871)	(711,003)	54,342	(6,733,532)
Equipment	(18,143,208)	(2,874,843)	29,570	(20,988,481)
Total	(32,895,540)	(4,461,731)	399,677	(36,957,594)
Net carrying amount	\$ 33,294,016	\$ 8,555,643	\$ -	\$ 41,849,659

Capital asset activity for the component units for the years ended December 31, 2005 and 2004 included approximately \$386,000 and \$40,000 of additions and \$32,000 and \$30,000 of depreciation, respectively.

Depreciation and amortization expense on capital assets for the Hospital and component units for the years ended December 31, 2005 and 2004 totaled \$5,471,619 and \$4,602,650, respectively.

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Liabilities

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

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 5.3 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 1,492,916	\$ -	\$ (85,416)	\$ 1,407,500	\$ 90,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	4,025,000	-	(1,980,000)	2,045,000	1,980,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002B (maturing September 2013)	9,166,667	-	(666,667)	8,500,000	666,667
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	8,312,500	-	(950,000)	7,362,500	950,000
Total long-term debt	22,997,083	-	(3,682,083)	19,315,000	3,686,667
Chase equipment lease (maturing August 2010)	-	4,000,000	(184,193)	3,815,807	565,554
Compensated absences	1,027,193	2,360,071	(2,202,124)	1,185,140	592,000
Total noncurrent liabilities	<u>\$ 24,024,276</u>	<u>\$ 6,360,071</u>	<u>\$ (6,068,400)</u>	<u>\$ 24,315,947</u>	<u>\$ 4,844,221</u>

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Liabilities (Continued)

Long-term liability activity for the year ended December 31, 2004 was as follows:

	2003	Current Year Additions	Current Year Reductions	2004	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 5.3056 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 1,573,333	\$ -	\$ (80,417)	\$ 1,492,916	\$ 85,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	6,005,000	-	(1,980,000)	4,025,000	1,980,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2002B (maturing September 2013)	9,833,333	-	(666,666)	9,166,667	666,667
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	<u>9,262,500</u>	<u>-</u>	<u>(950,000)</u>	<u>8,312,500</u>	<u>950,000</u>
Total long-term debt	26,674,166	-	(3,677,083)	22,997,083	3,682,084
Compensated absences	<u>831,394</u>	<u>2,188,806</u>	<u>(1,993,007)</u>	<u>1,027,193</u>	<u>513,000</u>
Total noncurrent liabilities	<u>\$ 27,505,560</u>	<u>\$ 2,188,806</u>	<u>\$ (5,670,090)</u>	<u>\$ 24,024,276</u>	<u>\$ 4,195,084</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 proceeds were used to retire prior obligations. The Series 2003A Bonds mature in quarterly principal installments ranging from \$495,000 in March 2004 to \$9,000 in September 2008, at a rate of 2.80 percent.

On September 1, 2003, the System entered into a financing agreement with the City of Circleville, Ohio in which the City issued \$10,000,000 of Hospital Facilities Revenue Bonds (Series 2003B Bonds). The proceeds were used to construct, renovate, and equip the emergency room, surgery center, and administrative offices, as well as construct a medical office building and other structures. 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 in which the City issued \$9,500,000 of Hospital Facilities Revenue Bonds (Series 2003C Bonds). The proceeds were used to fund construction of a medical office building and other structures, as well as land acquisitions. The Series 2003C Bonds mature in quarterly principal installments ranging from \$238,000 from March 2004 through September 2013, at a rate of LIBOR plus 1.25 percent.

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Liabilities (Continued)

In conjunction with the Series 2003A, Series 2003B, and Series 2003C Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. Management believes it is in compliance with all such financial covenants.

The Series 2003A, Series 2003B, and Series 2003C Bonds are collateralized by System revenues and receipts, and unexpended bond proceeds and income from bond fund related investments.

The following is a schedule by years of bond principal and interest as of December 31, 2005:

Years Ending December 31	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2006	\$ 3,686,667	\$ 614,996	\$ 565,554	\$ 123,826
2007	1,772,083	524,949	585,553	103,828
2008	1,712,083	470,353	606,258	83,122
2009	1,717,083	415,448	627,696	61,685
2010	1,722,500	360,272	1,430,746	28,840
2011-2015	8,416,667	761,384	-	-
2016-2020	287,917	23,220	-	-
Total payments	<u>\$19,315,000</u>	<u>\$ 3,170,622</u>	<u>\$ 3,815,807</u>	<u>\$ 401,301</u>

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 6 - Net Patient Service Revenue

The System provides services to certain patients covered by various third-party payor arrangements that provide for payments to the System in amounts different than their established rates. Gross patient service revenue and the allowances to reconcile net patient service revenue are as follows:

	2005		2004	
	System	Component Units	System	Component Units
Patient revenue:				
Inpatient services:				
Routine services	\$ 6,359,196	\$ -	\$ 6,435,332	\$ -
Ancillary services	37,822,747	-	33,617,999	-
Outpatient ancillary services	75,957,600	9,265,817	68,056,098	8,886,400
Total patient revenue	120,139,543	9,265,817	108,109,429	8,886,400
Revenue deductions:				
Provision for contractual allowances	55,414,840	4,097,346	48,403,141	3,803,518
Provision for bad debts	4,143,750	402,317	4,207,892	334,786
Charity care - Net of Hospital Care Assurance received	3,409,220	-	2,209,419	-
Total revenue deductions	62,967,810	4,499,663	54,820,452	4,138,304
Total	\$ 57,171,733	\$ 4,766,154	\$ 53,288,977	\$ 4,748,096

Note 7 - Medical Malpractice Claims

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

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

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

Note 7 - Medical Malpractice Claims (Continued)

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 8 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and postretirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2005 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2005, 2004, and 2003 employer contribution rate for local government units was 13.55 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were approximately \$2,602,000, \$2,459,000, and \$2,235,000, 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 8 - Defined Benefit Pension Plan (Continued)

Postretirement Benefits - In order to qualify for postretirement health care coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 and 2004 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.0 percent was the portion that was used to fund health care during both 2005 and 2004. The portion of the employer's contribution used to fund postemployment benefits for 2005 and 2004 was \$768,000 and \$725,000, respectively.

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

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2004 was 8.00 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 percent to 6.00 percent for the next eight years. In subsequent years (nine and beyond), health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the System's latest actuarial review performed as of December 31, 2004.

The number of active contributing participants in the Traditional and Combined Plans at December 31, 2005 was 376,109. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. As of December 31, 2004, the actuarial value of the Retirement System's net assets available for OPEB was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

Berger Health System

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Health Care Plan - On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 9 - Cost Report Settlements

Approximately 55 percent of the System's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

- **Medicare** - Inpatient, acute-care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for most outpatient services are based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003 under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000. The Medicare Modernization Act of 2003 extended these hold harmless provisions until January 1, 2006. The Hospital has recorded a liability for certain outpatient payments received prior to December 31, 2003, as the county in which the Hospital resides has been reclassified to an urban area and as such, the Hospital would not be eligible for such payments under the hold harmless reimbursement provision.
- **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.

Note 9 - Cost Report Settlements (Continued)

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The System also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 10 - Self-insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per employee. Claims, charged to operations when incurred, were approximately \$4,200,000 and \$3,000,000 for the years ended December 31, 2005 and 2004, 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*; No Reportable Instances of Noncompliance of Other Matters

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*; No Reportable Instances of Noncompliance of Other Matters

To the Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System as of and for the year December 31, 2005 and have issued our report thereon dated February 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Berger Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Berger Health System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Governors
Berger Health System

We have issued a letter of recommendations to management regarding certain financial operating and efficiency matters. This report is intended solely for the information and use of the Auditor of the State of Ohio, Board of Governors of Berger Health System, and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Alente & Morse, PLLC

February 10, 2006



**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 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 29, 2006**