

Berger Health System

**Financial Report
with Additional Information
December 31, 2007**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Berger Health System, Pickaway County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 16, 2008

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Berger Health System

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Independent Auditor's Report

To the Board of Governors
Berger Health System

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System"), a component unit of the City of Circleville, as of December 31, 2007 and 2006, 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, 2007 and 2006 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. The information presented in the management's discussion and analysis includes amounts related to the component units rather than presenting information of the primary government. 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.

To the Board of Governors
Berger Health System

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2008 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the effectiveness of 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 & Moran, PLLC

April 4, 2008

Berger Health System

Management's Discussion and Analysis

This section of Berger Health System's (the "System") annual financial statements presents background information and management's discussion and analysis (MD&A) of the System's financial performance during the year ended December 31, 2007. This MD&A includes a discussion and analysis of the activities and results of the primary government entity, Berger Hospital, and its component units of Pickaway Health Services (PHS), Pickaway Professional Services (PPS), and Berger Health Foundation (BHF).

This MD&A should be read together with the financial statements included in this report as the financial statement presents the primary government entity 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 System's net assets increased to \$56.2 million in 2007. This was a \$519,000 increase from 2006.
- During the year, the System's net operating revenue increased by 1.1% to \$67.3 million while expenses decreased by 0.5% to \$67.6 million.
- Throughout 2007, the System made the following significant capital acquisitions and improvements from sources of funding that were derived from cash flows from operations:
 - New/upgraded diagnostic capabilities, including an MRI, a CT scanner, an ultrasound, and a digital mammography unit
 - Completed furnishing and related equipment for the Berger Medical Center in northern Pickaway County

Financial Statements

The financial statements of the System present information about the System using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information.

The balance sheet includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

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

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

Berger Health System

Management's Discussion and Analysis (Continued)

Financial Analysis

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

A summary of the System's balance sheet as of December 31, 2007, 2006, and 2005 is presented below (in thousands). As can be seen, net assets increased to \$56.2 million in 2007, up from \$55.7 million in 2006.

Cash and investments increased \$8.3 million primarily due to the refinancing of existing revenue bonds of \$6.5 million and the issuance of new revenue bonds of \$6.6 million.

Total liabilities increased \$6.2 million due to the net issuance of \$6.6 million in revenue bond financing.

	<u>2007</u>	<u>2006</u>	<u>\$ Change 2007-2006</u>	<u>%Change 2007-2006</u>	<u>2005</u>
Cash and investments	\$ 31,156	\$ 22,906	\$ 8,250	36.0%	\$ 31,007
Capital assets	48,545	48,962	(417)	-0.9%	47,585
Other assets	<u>9,777</u>	<u>10,872</u>	<u>(1,095)</u>	-10.1%	<u>9,317</u>
Total assets	<u>\$ 89,478</u>	<u>\$ 82,740</u>	<u>\$ 6,738</u>	8.1%	<u>\$ 87,909</u>
Current and other liabilities	\$ 10,923	\$ 8,451	\$ 2,472	29.3%	\$ 12,255
Long-term debt	<u>22,316</u>	<u>18,569</u>	<u>3,747</u>	20.2%	<u>18,878</u>
Total liabilities	33,239	27,020	6,219	23.0%	31,133
General	55,568	55,420	148	0.3%	56,421
Restricted	<u>671</u>	<u>300</u>	<u>371</u>	123.7%	<u>355</u>
Total net assets	<u>56,239</u>	<u>55,720</u>	<u>519</u>	0.9%	<u>56,776</u>
Total liabilities and net assets	<u>\$ 89,478</u>	<u>\$ 82,740</u>	<u>\$ 6,738</u>	8.1%	<u>\$ 87,909</u>

Berger Health System

Management's Discussion and Analysis (Continued)

A summary of the System's statement of revenue, expenses, and changes in net assets for the years ended December 31, 2007, 2006, and 2005 is presented below (in thousands).

	<u>2007</u>	<u>2006</u>	<u>\$ Change 2007-2006</u>	<u>% Change 2007-2006</u>	<u>2005</u>
Operating revenues:					
Net patient service revenue	\$ 64,799	\$ 63,894	\$ 905	1.4%	\$ 61,937
Other	2,507	2,669	(162)	-6.1%	2,203
Total operating revenues	67,306	66,563	743	1.1%	64,140
Operating expenses:					
Salaries and benefits	36,338	37,272	(934)	-2.5%	34,095
Supplies and other	25,695	25,268	427	1.7%	24,737
Depreciation and amortization	5,561	5,397	164	3.0%	5,471
Total operating expenses	67,594	67,937	(343)	-0.5%	64,303
Operating income (loss)	(288)	(1,374)	1,086	-79.0%	(163)
Total other income	436	373	63	16.9%	519
Excess of revenue over (under) expenses	148	(1,001)	1,149	-114.8%	356
Change in restricted fund balance	371	(55)	427	-776.4%	30
Net assets - Beginning of year	55,720	56,776	(1,056)	-1.9%	56,392
Net assets - End of year	\$ 56,239	\$ 55,720	519	0.9%	\$ 56,778

Operating and Financial Performance

Sources of Revenue

During 2007, the System derived substantially all of its revenue from patient services. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross patient revenue, by payor, for the years ended December 31, 2007, 2006, and 2005:

<u>Payor</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	42.7%	43.1%	42.2%
Medicaid	16.5%	18.7%	17.4%
Commercial	32.3%	30.3%	32.8%
BWC	1.5%	1.3%	1.5%
Self pay	6.3%	6.0%	5.5%
Other	0.7%	0.6%	0.6%

Berger Health System

Management's Discussion and Analysis (Continued)

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

Revenue

Total operating revenues increased \$743,000 in 2007 primarily as a result of an increase in outpatient utilization of surgery services and an increase in emergency room visits. Also contributing to the increase in net patient revenue was an overall rate adjustment effective January 1, 2007. Further discussion follows:

- Overall activity of the System as measured by patient admissions adjusted for outpatient services increased to 9,838 in 2007 from 9,381 in 2006. This was an increase of 4.87%. The variables described below contributed to the increase in adjusted admissions.
 - Inpatient activity levels during 2007 decreased in terms of patient days and in terms of admissions, resulting in patient days and admissions of 11,663 and 3,133, respectively. Inpatient rehabilitation realized a decrease of 146 patient days as a result of continued limiting of admissions to conform to the Medicare 75% rule.
 - Overall outpatient visits during 2007, including emergency and clinic visits, were 90,034, or 6.1% above 2006 levels. Increases in outpatient activity were noted in radiology services (including MRI and CT) of 5.4% and laboratory services of 7.2%.
- During 2007, net receipts from the Health Care Assurance Program (HCAP) of \$681,000 were recognized. HCAP is a state program that helps hospitals partially offset losses from treating indigent patients by generating matching funds from the federal government through assessments and disbursements made to each Ohio hospital.
- Included in net patient service revenue are charges for patient services waived under the System's charity care and HCAP policies. Both represent unreimbursed charges incurred by the System in providing uncompensated care to indigent patients. Eligibility for these programs is derived from family size and income levels. Based on established rates, gross charges of \$4.9 million were waived during 2007. Management's commitment to provide care for all patients without regard to their ability to pay and the growing number of uninsured continues to contribute to these levels.

Berger Health System

Management's Discussion and Analysis (Continued)

Expenses

Total operating expenses decreased by \$344,000 in 2007, which was attributed to management's focused efforts to control expense growth and add new services and service locations (Berger Medical Center). Further discussion follows:

- Salaries and wages increased \$220,000 from FY 2006. This increase includes merit adjustments (between 3% and 5%) during the year as well as adjustments in staffing levels throughout the System. The Hospital decreased 43.6 FTEs from 2006, PHS added four new providers, and PPS added a CRNA in 2007.
- Benefits decreased \$1.2 million from FY 2006. The decrease was primarily related to the decrease in FTEs and a reduction in health insurance claims paid for employees and their dependents under the hospital's self-funded health insurance benefit.
- Depreciation expense increased by \$163,000, or 3.02% over 2006, and was \$90,000 more than 2005.

Statement of Cash Flows

Another way to assess the System's financial health is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity. The statement of cash flows also helps assess an entity's ability to generate future cash flows, an entity's ability to meet its obligations, and an entity's need for external financing.

	2007	2006	Increase (Decrease)	2005
Cash provided by (used in):				
Operating activities	\$ 7,132,077	\$ 2,185,665	\$ 4,946,412	\$ 3,784,401
Financing activities	(2,880,586)	(9,077,077)	6,196,491	(13,318,175)
Investing activities	(3,975,224)	6,466,800	(10,442,024)	9,939,375
Net increase (decrease) in cash	276,267	(424,612)	700,879	405,601
Cash - Beginning of year	693,270	1,117,882	(424,612)	712,281
Cash - End of year	<u>\$ 969,537</u>	<u>\$ 693,270</u>	<u>\$ 276,267</u>	<u>\$ 1,117,882</u>

The System's liquidity position remained consistent with 2006 and 2005 results. Listed below is an overview of the cash flows presented above.

- Cash generated by operations was \$7.1 million in 2007 (\$2.2 million in 2006).
- Cash used was \$7.8 million for fixed asset additions in 2007 (\$4.2 million in 2006) and \$1.1 million for debt repayments, excluding refinancing (\$3.8 million in 2006). Equity transfers to component units were \$4.7 million in 2007 (\$3.9 million in 2006).
- Cash provided by investing activities decreased \$10.4 million from 2006.

Berger Health System

Management's Discussion and Analysis (Continued)

In 2007, Berger Health System continued to utilize its financial strength to build infrastructure to ensure that healthcare is provided locally in the future. The healthcare infrastructure includes the medical office building, the purchase of additional capital assets, recruitment of new physicians, and the development of clinics in the southern and northwestern part of Pickaway County.

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

Actual to Budget Performance

As specified in the System's bylaws, the board of governors is required to approve an annual budget. An actual to budget comparison and analysis is presented monthly to the board. The final 2007 results are summarized below (in thousands):

	2007 Actual	2007 Budget	\$ Change	% Change
Revenue:				
Net patient revenue	\$ 64,799	\$ 66,667	\$ (1,868)	-2.8%
Other	2,507	2,376	131	5.5%
Total revenue	67,306	69,043	(1,737)	-2.5%
Expenses:				
Salaries and benefits	36,338	38,024	(1,686)	-4.4%
Supplies and other	25,695	26,326	(631)	-2.4%
Depreciation	5,561	4,998	563	11.3%
Total expenses	67,594	69,348	(1,754)	-2.5%
Loss from operations	(288)	(305)	17	-5.6%
Nonoperating income	436	352	84	23.9%
Excess of revenue over expenses	\$ 148	\$ 47	\$ 101	214.9%

In comparing actual versus budgeted 2007 results, the following variances are noted:

- In 2007, the System's actual loss from operations was \$18,000 better than budgeted for the year. The major contributors to this variance are described below:
 - Operating revenue was under budget by \$1.7 million or 2.5%, due to higher than budgeted contractual rates and greater than anticipated charity care write-offs.
 - Employee compensation was under budget by \$1.7 million due to decreased health insurance expense and management's focus on maintaining staffing efficiencies.
 - Depreciation expense was over budget by \$563,000.
 - Supplies and other expenses were under budget by \$632,000, the largest components of which were physician services, which were \$315,000 under budget, and nonphysician fees, which were under budget by \$346,000.

Berger Health System

Management's Discussion and Analysis (Continued)

Capital Assets

During 2007, the System invested \$7.8 million in a broad range of capital assets included in the table below (in thousands):

	2007	2006	\$ Change 2007- 2006	% Change 2007-2006	2005
Land and land improvements	\$ 5,193	\$ 5,124	\$ 69	1.3%	\$ 5,386
Buildings	59,787	58,897	890	1.5%	49,758
Equipment	36,956	32,801	4,155	12.7%	34,239
Total capital assets	101,936	96,822	5,114	5.3%	89,383
Less accumulated depreciation	(53,498)	(47,956)	(5,542)	11.6%	(42,599)
Construction in progress	106	98	8	8.2%	801
Capital assets - Net	<u>\$ 48,544</u>	<u>\$ 48,964</u>	<u>\$ (420)</u>	<u>-0.9%</u>	<u>\$ 47,585</u>

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

- New/upgraded diagnostic capabilities, including an MRI, a CT scanner, an ultrasound, and digital mammography equipment.
- Completed furnishings and related equipment for the Berger Medical Center in Northern Pickaway County.

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

The table below shows the System's 2008 capital budget with projected spending of \$1.615 million for capital projects. These projects will be financed from operations and reserves.

Capital Budget	(in thousands)
Information system upgrade	\$ 574
Replacement equipment	533
Building improvements	508
Total	<u>\$ 1,615</u>

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

Berger Health System

Management's Discussion and Analysis (Continued)

Long-term Debt

At year end, the System had \$24.8 million in short-term and long-term notes and bonds, an increase from \$19.3 million at December 31, 2006. New Revenue Bonds were issued in 2007 totaling a net change in outstanding bonds of \$6.6 million. Principal payments on long-term debt in 2007 were approximately \$7.8 million (including \$6.65 million in early retirement payments). More detailed information about the System's long-term debt is presented in the notes to the financial statements.

Economic Factors and 2008 Budget

The System's board and management considered many factors when setting the 2008 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 uninsureds
- Increasing cost of employee benefits
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multiyear plan that will emphasize expanded services to all areas of Pickaway County, continuous quality improvement, cost control, capital requirements, and financing/refinancing to maximize balance sheet performance.

Contacting the System's Financial Officer

This report is designed to provide our citizens, customers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability. If you have questions about this report or need additional financial information, contact the vice president of finance, David Paugh, at (740) 420-8404 or david.paugh@bergerhealth.com.

Berger Health System

Balance Sheet

	December 31, 2007		December 31, 2006	
	Hospital	Component Units	Hospital	Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 357,970	\$ 611,567	\$ 494,546	\$ 198,724
Restricted cash and cash equivalents	2,720,437	-	90,000	-
Short-term investments (Note 2)	20,443,875	299,048	13,199,179	254,846
Net patient accounts receivable (Note 3)	6,834,322	762,477	7,687,678	369,805
Estimated third-party payor settlements	59,754	-	-	-
Prepaid expenses and other	525,469	195,692	1,169,793	162,858
Inventory	1,264,838	-	1,374,248	-
Total current assets	32,206,665	1,868,784	24,015,444	986,233
Long-term Investments (Note 2)	6,180,867	541,573	8,376,450	290,752
Property and Equipment (Note 4)	47,990,900	554,052	48,377,195	585,965
Other Assets - Bond issue costs	135,052	-	107,759	-
Total assets	<u>\$ 86,513,484</u>	<u>\$ 2,964,409</u>	<u>\$ 80,876,848</u>	<u>\$ 1,862,950</u>
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt (Note 5)	\$ 2,449,532	\$ -	\$ 713,113	\$ -
Accounts payable	3,787,768	250,956	2,594,880	180,555
Estimated third-party payor settlements	-	-	145,838	-
Accrued liabilities and other:				
Accrued compensation and related accruals	2,188,799	814,095	2,754,475	675,049
Accrued interest	77,006	-	88,105	-
Total current liabilities	8,503,105	1,065,051	6,296,411	855,604
Long-term Debt - Net of current portion (Note 5)	22,315,525	-	18,569,640	-
Other Liabilities - Accrued compensated absences (Note 5)	1,151,421	204,125	1,113,886	184,618
Total liabilities	31,970,051	1,269,176	25,979,937	1,040,222
Net Assets				
Invested in capital assets - Net of related debt	23,225,843	554,052	29,094,442	585,965
Restricted - Expendable for capital improvements, debt service, and other purposes	30,500	639,897	21,553	278,243
Unrestricted	31,287,090	501,284	25,780,916	(41,480)
Total net assets	54,543,433	1,695,233	54,896,911	822,728
Total liabilities and net assets	<u>\$ 86,513,484</u>	<u>\$ 2,964,409</u>	<u>\$ 80,876,848</u>	<u>\$ 1,862,950</u>

Berger Health System

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2007		December 31, 2006	
	Hospital	Component Units	Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 59,342,023	\$ 5,456,938	\$ 58,757,594	\$ 5,136,635
Other	1,511,452	995,509	1,556,049	1,112,609
Total operating revenues	60,853,475	6,452,447	60,313,643	6,249,244
Operating Expenses				
Salaries and wages	20,690,759	6,712,981	21,150,830	6,033,145
Employee benefits and payroll taxes	7,398,433	1,535,344	8,723,822	1,363,930
Operating supplies and other	17,496,237	1,447,625	16,462,425	1,560,355
Professional services and consultant fees	2,149,241	2,300	2,536,369	2,634
Purchased services	3,082,174	587,335	3,536,577	421,394
Insurance	589,494	340,516	412,812	334,961
Depreciation and amortization	5,527,210	33,454	5,364,894	32,520
Total operating expenses	56,933,548	10,659,555	58,187,729	9,748,939
Operating Income (Loss)	3,919,927	(4,207,108)	2,125,914	(3,499,695)
Other Income (Expenses)				
Interest income	1,458,600	9,166	1,219,321	6,941
Gain (loss) on sale of property	4,000	-	(208,063)	-
Contributions	114,639	-	273,218	-
Interest expense	(933,305)	-	(918,690)	-
Other expense	(217,493)	-	-	-
Total other income	426,441	9,166	365,786	6,941
Excess of Revenue Over (Under) Expenses	4,346,368	(4,197,942)	2,491,700	(3,492,754)
Contribution (to) from Component Units	(4,708,793)	4,708,793	(3,949,544)	3,949,544
Contributions (Expenditures) of Restricted Assets	8,947	361,654	15,507	(71,466)
(Decrease) Increase in Net Assets	(353,478)	872,505	(1,442,337)	385,324
Net Assets - Beginning of year	54,896,911	822,728	56,339,248	437,404
Net Assets - End of year	\$ 54,543,433	\$ 1,695,233	\$ 54,896,911	\$ 822,728

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

Berger Health System

Statement of Cash Flows

	Year Ended			
	December 31, 2007		December 31, 2006	
	Hospital	Component Units	Hospital	Component Units
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 60,195,379	\$ 5,064,266	\$ 57,711,342	\$ 5,208,497
Cash payments to suppliers for services and goods	(21,587,215)	(2,340,209)	(23,570,486)	(2,361,962)
Cash payments to employees and for professional services	(28,617,333)	(8,089,772)	(30,136,086)	(7,334,298)
Other operating revenue received	1,511,452	995,509	1,556,049	1,112,609
Net cash provided by (used in) operating activities	11,502,283	(4,370,206)	5,560,819	(3,375,154)
Cash Flows from Investing Activities				
Cash received from investments	12,584,984	344,874	20,106,861	29,263
Cash paid for investments	(17,634,097)	(639,897)	(14,682,498)	(278,243)
Interest income and other	1,359,746	9,166	1,284,476	6,941
Net cash provided by (used in) investing activities	(3,689,367)	(285,857)	6,708,839	(242,039)
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of debt obligations	13,275,000	-	-	-
Purchase of capital assets	(5,157,109)	(1,541)	(6,703,032)	(68,445)
Repayment of long-term debt	(7,792,696)	-	(3,848,054)	-
Other capital-related contributions	8,947	361,654	15,507	(71,466)
Contributions (to) from component units	(4,708,793)	4,708,793	(3,949,544)	3,949,544
Cash paid for interest	(944,404)	-	(904,022)	-
Net cash provided by (used in) capital and related financing activities	(5,319,055)	5,068,906	(15,389,145)	3,809,633
Net Increase (Decrease) in Cash and Cash Equivalents	2,493,861	412,843	(3,119,487)	192,440
Cash and Cash Equivalents - Beginning of year	584,546	198,724	3,704,033	6,284
Cash and Cash Equivalents - End of year	\$ 3,078,407	\$ 611,567	\$ 584,546	\$ 198,724

For the Hospital, cash and cash equivalents is comprised of cash and cash equivalents and restricted cash and cash equivalents in the amounts of \$357,970 and \$2,720,437, respectively, in 2007 and \$494,546 and \$90,000, respectively, in 2006.

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, 2007		December 31, 2006	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 3,919,927	\$ (4,207,108)	\$ 2,125,914	\$ (3,499,695)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	5,527,210	33,454	5,364,894	32,520
Provision for bad debts	4,291,238	712,115	3,819,967	620,603
Changes in assets and liabilities:				
Patient accounts receivable	(3,437,882)	(1,104,787)	(4,866,219)	(548,741)
Inventories and other assets	753,734	(32,834)	(551,939)	(47,208)
Accounts payable and accrued expenses	653,648	228,954	108,201	67,367
Estimated third-party settlements	(205,592)	-	(439,999)	-
Net cash provided by (used in) operating activities	<u>\$ 11,502,283</u>	<u>\$ (4,370,206)</u>	<u>\$ 5,560,819</u>	<u>\$ (3,375,154)</u>

Berger Health System

Component Units - Combining Balance Sheet December 31, 2007

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 334,608	\$ 126,860	\$ 150,099	\$ 611,567
Short-term investments	-	-	299,048	299,048
Accounts receivable	662,913	99,564	-	762,477
Prepaid expenses and other	140,368	28,379	26,945	195,692
Total current assets	1,137,889	254,803	476,092	1,868,784
Long-term Investments	119,678	-	421,895	541,573
Property and Equipment	168,085	-	385,967	554,052
Total assets	\$ 1,425,652	\$ 254,803	\$ 1,283,954	\$ 2,964,409
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 172,629	\$ 31,509	\$ 46,818	\$ 250,956
Accrued compensation	639,232	162,573	12,290	814,095
Total current liabilities	811,861	194,082	59,108	1,065,051
Other Liabilities - Accrued compensated absences	162,940	28,784	12,401	204,125
Total liabilities	974,801	222,866	71,509	1,269,176
Net Assets				
Invested in capital assets - Net of related debt	168,085	-	385,967	554,052
Restricted - Expendable for capital improvements, debt service, and other purposes	-	-	639,897	639,897
Unrestricted	282,766	31,937	186,581	501,284
Total net assets	450,851	31,937	1,212,445	1,695,233
Total liabilities and net assets	\$ 1,425,652	\$ 254,803	\$ 1,283,954	\$ 2,964,409

Berger Health System

Component Units - Combining Balance Sheet December 31, 2006

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 181,831	\$ 10,254	\$ 6,639	\$ 198,724
Short-term investments	-	-	254,846	254,846
Accounts receivable	252,492	117,313	-	369,805
Prepaid expenses and other	136,310	21,547	5,001	162,858
Total current assets	570,633	149,114	266,486	986,233
Long-term Investments	82,130	-	208,622	290,752
Property and Equipment	199,998	-	385,967	585,965
Total assets	\$ 852,761	\$ 149,114	\$ 861,075	\$ 1,862,950
Liabilities and Net Assets (Deficit)				
Current Liabilities				
Accounts payable	\$ 46,263	\$ 32,538	\$ 101,754	\$ 180,555
Accrued compensation	528,084	135,839	11,126	675,049
Total current liabilities	574,347	168,377	112,880	855,604
Other Liabilities - Accrued compensated absences	149,560	29,454	5,604	184,618
Total liabilities	723,907	197,831	118,484	1,040,222
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	199,998	-	385,967	585,965
Restricted - Expendable for capital improvements, debt service, and other purposes	-	-	278,243	278,243
Unrestricted	(71,144)	(48,717)	78,381	(41,480)
Total net assets (deficit)	128,854	(48,717)	742,591	822,728
Total liabilities and net assets (deficit)	\$ 852,761	\$ 149,114	\$ 861,075	\$ 1,862,950

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2007

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	\$ 4,438,878	\$ 1,018,060	\$ -	\$ 5,456,938
Other	311,831	430,773	252,905	995,509
Total operating revenues	4,750,709	1,448,833	252,905	6,452,447
Operating Expenses				
Salaries and wages	5,343,092	1,256,777	113,112	6,712,981
Employee benefits and payroll taxes	1,108,060	414,091	13,193	1,535,344
Operating supplies and other	1,279,769	153,645	14,211	1,447,625
Professional services and consultant fees	2,300	-	-	2,300
Purchased services	423,543	-	163,792	587,335
Insurance	340,516	-	-	340,516
Depreciation and amortization	33,454	-	-	33,454
Total operating expenses	8,530,734	1,824,513	304,308	10,659,555
Operating Loss	(3,780,025)	(375,680)	(51,403)	(4,207,108)
Other Income - Interest income	688	370	8,108	9,166
Excess of Expenses Over Revenue	(3,779,337)	(375,310)	(43,295)	(4,197,942)
Transfer from Affiliate	4,101,334	455,964	151,495	4,708,793
Contributions of Restricted Assets	-	-	361,654	361,654
Increase in Net Assets	321,997	80,654	469,854	872,505
Net Assets (Deficit) - Beginning of year	128,854	(48,717)	742,591	822,728
Net Assets - End of year	\$ 450,851	\$ 31,937	\$ 1,212,445	\$ 1,695,233

Berger Health System

Component Units - Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2006

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating Revenues				
Net patient service revenue	\$ 4,175,468	\$ 961,167	\$ -	\$ 5,136,635
Other	560,425	375,398	176,786	1,112,609
Total operating revenues	4,735,893	1,336,565	176,786	6,249,244
Operating Expenses				
Salaries and wages	4,865,061	1,077,808	90,276	6,033,145
Employee benefits and payroll taxes	936,595	418,565	8,770	1,363,930
Operating supplies and other	1,391,463	150,044	18,848	1,560,355
Professional services and consultant fees	2,634	-	-	2,634
Purchased services	138,042	-	283,352	421,394
Insurance	334,961	-	-	334,961
Depreciation and amortization	32,520	-	-	32,520
Total operating expenses	7,701,276	1,646,417	401,246	9,748,939
Operating Loss	(2,965,383)	(309,852)	(224,460)	(3,499,695)
Other Income - Interest income	896	-	6,045	6,941
Excess of Expenses Over Revenue	(2,964,487)	(309,852)	(218,415)	(3,492,754)
Transfer from Affiliate	3,155,634	516,753	277,157	3,949,544
Expenditures of Restricted Assets	-	-	(71,466)	(71,466)
Increase (Decrease) in Net Assets	191,147	206,901	(12,724)	385,324
Net Assets (Deficit) - Beginning of year	(62,293)	(255,618)	755,315	437,404
Net Assets (Deficit) - End of year	<u>\$ 128,854</u>	<u>\$ (48,717)</u>	<u>\$ 742,591</u>	<u>\$ 822,728</u>

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies

Organization - Berger Health System, a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital 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 or her 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 (the "Hospital"), Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation (collectively, the "System"). Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation are collectively the "component units" of the Hospital.

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

Pickaway Professional Services (PPS) provides anesthesia care and related professional services in the geographic area served by the Hospital. 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.

Note I - 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.

Note I - 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 classified as a long-term 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.

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance 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 healthcare 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.

Charity care provided, based on charges at established rates, was approximately \$4,881,000 and \$3,272,000 in 2007 and 2006, respectively.

Pension Plan - Substantially all of the System's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The System funds pension costs accrued, based on contribution rates determined by OPERS.

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

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 government to invest in United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the State of Ohio. 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 - Active funds are those funds required to be kept in a "cash" or "near cash" status for immediate use by the System. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive Funds - Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.

Note 2 - Deposits and Investments (Continued)

Interim Funds - Interim funds are those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio law permits interim funds to be invested or deposited in the following securities:

1. Bonds, notes, or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, note debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the System, and must be purchased with the expectation that it will be held to maturity.

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

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 \$5,166,000 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 department or agent:

Type of Investment	Carrying Value	How Held
U.S. Agency Bonds	\$ 21,763,000	Counterparty
STAR Ohio	250,000	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
U.S. Agency Bonds	\$ 21,763,000	0.83 years
STAR Ohio	250,000	0.00 years

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

Credit Risk - The System does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. Agency Bonds	\$ 21,763,000	AAA	Standard & Poor's
STAR Ohio	250,000	AAA	Standard & Poor's

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	Hospital	
	2007	2006
Patient accounts receivable	\$ 15,064,322	\$ 15,057,678
Less:		
Allowance for uncollectible accounts	(2,000,000)	(2,050,000)
Allowance for contractual adjustments	(6,230,000)	(5,320,000)
Net patient accounts receivable	<u>\$ 6,834,322</u>	<u>\$ 7,687,678</u>
	Component Units	
	2007	2006
Patient accounts receivable	\$ 3,082,477	\$ 1,999,805
Less:		
Allowance for uncollectible accounts	(990,000)	(720,000)
Allowance for contractual adjustments	(1,330,000)	(910,000)
Net patient accounts receivable	<u>\$ 762,477</u>	<u>\$ 369,805</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:

	Percentage	
	2007	2006
Medicare	34	31
Medicaid	11	8
Commercial insurance and HMOs	37	43
Self-pay	18	18
Total	<u>100</u>	<u>100</u>

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 4 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2007 are summarized below:

	2006	Additions	Transfers	Retirements	2007
Land	\$ 3,210,611	\$ -	\$ -	\$ (39)	\$ 3,210,572
Land improvements	1,527,005	29,407	40,320	-	1,596,732
Buildings	35,522,904	75,870	87,751	(32,742)	35,653,783
Building improvements	17,298,936	112,726	366,708	-	17,778,370
Equipment	38,435,423	3,649,146	779,595	(2,849)	42,861,315
Construction in progress	90,523	1,289,960	(1,274,374)	-	106,109
Total	96,085,402	5,157,109	-	(35,630)	101,206,881
Less accumulated depreciation:					
Land improvements	(1,001,646)	(88,972)	-	-	(1,090,618)
Buildings	(10,761,308)	(1,345,487)	-	(32,742)	(12,139,537)
Building improvements	(8,483,652)	(949,240)	-	-	(9,432,892)
Equipment	(27,461,601)	(3,088,484)	-	(2,849)	(30,552,934)
Total	(47,708,207)	(5,472,183)	-	(35,591)	(53,215,981)
Net carrying amount	\$ 48,377,195	\$ (315,074)	\$ -	\$ (71,221)	\$ 47,990,900

Cost of capital assets and related depreciable lives for December 31, 2006 are summarized below:

	2005	Additions	Transfers	Retirements	2006
Land	\$ 3,528,490	\$ 9,251	\$ -	\$ (327,130)	\$ 3,210,611
Land improvements	1,472,076	40,399	14,530	-	1,527,005
Building	32,786,188	207,927	2,729,288	(200,499)	35,522,904
Building improvements	16,954,090	59,234	285,612	-	17,298,936
Equipment	33,877,121	2,789,420	1,776,277	(7,395)	38,435,423
Construction in progress	801,300	4,094,930	(4,805,707)	-	90,523
Total	89,419,265	7,201,161	-	(535,024)	96,085,402
Less accumulated depreciation:					
Land improvements	(908,918)	(92,728)	-	-	(1,001,646)
Buildings	(9,421,340)	(1,380,259)	61,176	(20,885)	(10,761,308)
Building improvements	(7,531,572)	(952,080)	-	-	(8,483,652)
Equipment	(24,521,774)	(2,939,827)	4,560	(4,560)	(27,461,601)
Total	(42,383,604)	(5,364,894)	65,736	(25,445)	(47,708,207)
Net carrying amount	\$ 47,035,661	\$ 1,836,267	\$ 65,736	\$ (560,469)	\$ 48,377,195

Capital asset activity for the component units for the years ended December 31, 2007 and 2006 included approximately \$2,000 and \$68,000 of additions and \$33,500 and \$32,500 of depreciation, respectively.

Depreciation and amortization expense on capital assets for the Hospital and component units for the years ended December 31, 2007 and 2006 totaled \$5,560,664 and \$5,397,414, respectively.

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Long-term Liabilities

Long-term liability activity for the year ended December 31, 2007 was as follows:

	2006	Current Year Additions	Current Year Reductions	2007	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	\$ 1,317,500	\$ -	\$ (90,000)	\$ 1,227,500	\$ 95,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	65,000	-	(37,143)	27,857	27,857
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing September 2013)	8,000,000	-	-	8,000,000	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	6,650,000	-	(6,650,000)	-	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007A (maturing September 2014)	-	9,950,000	(264,000)	9,686,000	1,056,000
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2007B (maturing September 2012)	-	3,325,000	(166,000)	3,159,000	664,000
Chase equipment lease collateralized by the equipment purchased (maturing August 2010)	3,250,253	-	(585,553)	2,664,700	606,258
Total long-term debt	19,282,753	13,275,000	(7,792,696)	24,765,057	2,449,532
Compensated absences	1,298,504	2,869,992	(2,812,950)	1,355,546	678,000
Total noncurrent liabilities	\$ 20,581,257	\$ 16,144,992	\$ (10,605,646)	\$ 26,120,603	\$ 3,127,532

Long-term liability activity for the year ended December 31, 2006 was as follows:

	2005	Current Year Additions	Current Year Reductions	2006	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	\$ 1,407,500	\$ -	\$ (90,000)	\$ 1,317,500	\$ 90,417
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003A (maturing September 2008)	2,045,000	-	(1,980,000)	65,000	37,143
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003B (maturing September 2013)	8,500,000	-	(500,000)	8,000,000	-
City of Circleville, Ohio, Hospital Facilities Revenue Bonds, 2003C (maturing September 2013)	7,362,500	-	(712,500)	6,650,000	-
Chase equipment lease collateralized by the equipment purchased (maturing August 2010)	3,815,807	-	(565,554)	3,250,253	585,553
Total long-term debt	23,130,807	-	(3,848,054)	19,282,753	713,113
Compensated absences	1,185,140	2,793,373	(2,680,009)	1,298,504	649,000
Total noncurrent liabilities	\$ 24,315,947	\$ 2,793,373	\$ (6,528,063)	\$ 20,581,257	\$ 1,362,113

Note 5 - Long-term Liabilities (Continued)

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, in which the City issued \$10,000,000 of hospital facilities revenue bonds (Series 2003B Bonds). The proceeds were used to construct, renovate, and equip the emergency room, surgery center, and administrative offices, as well as construct a medical office building and other structures. During 2006, the System refinanced the Series 2003B Bonds to change the maturity of the instrument. The System will pay interest-only payments at a rate of 4.10 percent until December 2011, at which time a lump-sum payment of \$3,500,000 will be due followed by quarterly principal installments ranging from \$167,000 in March 2012 to \$3,500,000 in September 2013, plus interest.

On September 1, 2003, the System entered into a financing agreement with the City, 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. During 2006, the System refinanced the Series 2003C Bonds to change the maturity of the instrument. During 2007, these bonds were retired.

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

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

In conjunction with the Series 2003A, Series 2003B, Series 2007A, and Series 2007B 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, Series 2007A, and Series 2007B Bonds are collateralized by System revenues and receipts, and unexpended bond proceeds and income from bond fund related investments.

Berger Health System

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Long-term Liabilities (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2007:

Years Ending December 31	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2008	\$ 1,843,274	\$ 927,424	\$ 606,258	\$ 83,122
2009	1,820,417	839,675	627,696	61,685
2010	1,825,833	754,087	1,430,745	28,840
2011	5,335,417	668,209	-	-
2012	2,346,085	429,124	-	-
2013-2017	8,929,332	494,876	-	-
Total payments	<u>\$ 22,100,358</u>	<u>\$ 4,113,395</u>	<u>\$ 2,664,699</u>	<u>\$ 173,647</u>

Note 6 - Risk Management

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

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

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

The System is exposed to various risks of loss related to property and general losses, as well as medical benefits provided to employees. The System has purchased commercial insurance coverage of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Note 7 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: the Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost-of-living adjustments, and postretirement healthcare benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the MD do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO) and are actuarially determined. The 2007 member contribution rate for members of local government units was 9.50 percent of their annual covered salary. The 2007, 2006, and 2005 employer contribution rate for local government units was 13.85 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were approximately \$2,789,000, \$2,813,000, and \$2,602,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Postretirement Benefits - In order to qualify for postretirement healthcare coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an other postemployment 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 healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 and 2006 employer contribution rates for local government employer units was 13.85 percent and 13.70 percent of covered payroll, respectively. Of these amounts, 5 percent and 6 percent was used for January 1 through June 30, 2007 and July 1 through December 31, 2007, respectively, and 4.50 percent was used to fund healthcare during 2006. The portion of the employer's contribution used to fund postemployment benefits for 2007 and 2006 was \$906,000 and \$924,000, respectively.

Note 7 - Defined Benefit Pension Plan (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement healthcare 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, not to exceed 12 percent corridor. The investment return assumption rate for 2006 was 6.50 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. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 5.00 percent for the next eight years. In subsequent years (nine and beyond), healthcare 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, 2006.

The number of active contributing participants in the TP and CO plans at December 31, 2007 was 374,979. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. As of December 31, 2006, the actuarial value of the retirement system's net assets available for OPEB was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

Healthcare Plan - On September 9, 2004, the OPERS retirement board adopted a healthcare preservation plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007 and 2008, which will allow additional funds to be allocated to the healthcare plan.

Note 8 - Cost Report Settlements

Approximately 42 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:

Note 8 - Cost Report Settlements (Continued)

- **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.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on a fee-for-service methodology.

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

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

The System 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 9 - Self-insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per employee. Claims, charged to operations when incurred, were approximately \$4,300,000 and \$5,800,000 for the years ended December 31, 2007 and 2006, respectively.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters**

Report on Internal Control Over Financial Reporting and on Compliance and 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, 2007 and have issued our report thereon dated April 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berger Health System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Berger Health System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Governors
Berger Health System

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Berger Health System in a separate letter dated April 4, 2008.

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

Plante & Moran, PLLC

April 4, 2008



Mary Taylor, CPA
Auditor of State

BERGER HEALTH SYSTEM

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 29, 2008**