

# **BERGER HEALTH SYSTEM**

## **FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**

*CPAs / ADVISORS*







# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Berger Health System, Pickaway County, prepared by Blue & Co., LLC, for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Berger Health System is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

May 5, 2015

**This page intentionally left blank.**

# BERGER HEALTH SYSTEM

## TABLE OF CONTENTS DECEMBER 31, 2014 AND 2013

---

	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (unaudited) .....	i-ix
<b>Financial Statements</b>	
Statements of Net Position .....	3
Statements of Operations and Changes in Net Position .....	5
Statements of Cash Flows .....	6
Component Units - Combining Statements of Net Position.....	8
Component Units - Combining Statements of Operations and Changes in Net Position .....	10
Notes to Financial Statements .....	12
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i></b> .....	37
<b>Schedule of Prior Audit Findings and Responses- Year ended December 31, 2013</b> .....	39



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240  
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

*blueandco.com*

## REPORT OF INDEPENDENT AUDITORS

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System"), a component unit of the City of Circleville, Ohio, as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about the financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the System's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Board of Governors  
Berger Health System

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Berger Health System as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Prior Period Financial Statements Audited by a Predecessor Auditor*

The financial statements of Berger Health System (the System) as of and for the year ended December 31, 2013, were audited by predecessor auditor whose report dated May 9, 2014, expressed an unmodified opinion on those statements.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



March 6, 2015  
Columbus, Ohio

# BERGER HEALTH SYSTEM

## Management's Discussion and Analysis (unaudited)

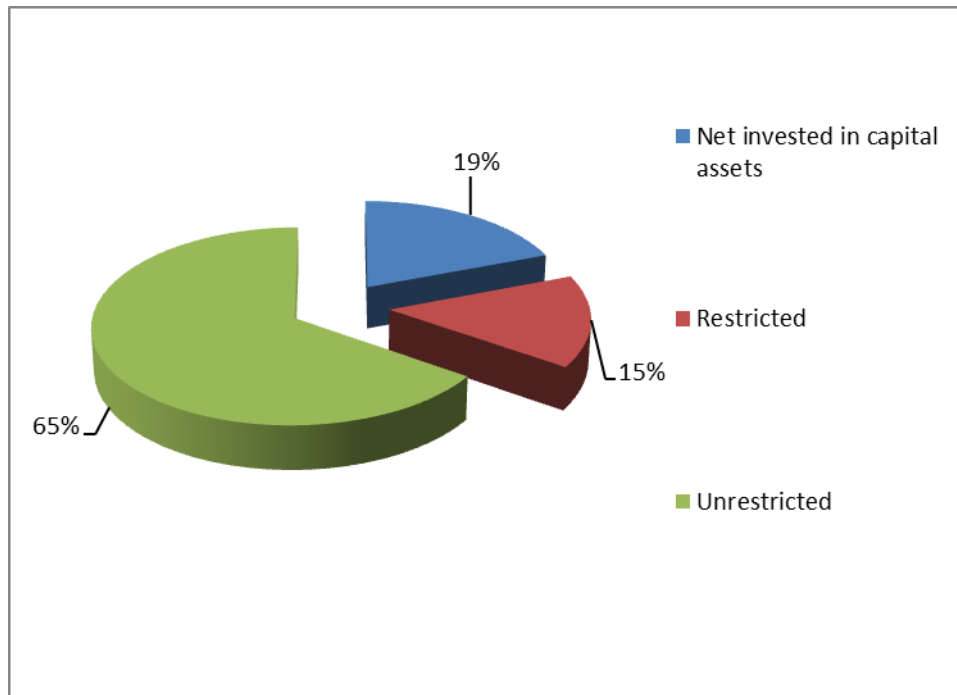
Management's discussion and analysis (MD&A) of Berger Health System (the "System") provides an overview of the financial activities for the year ended December 31, 2014. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with management's discussion and analysis. This MD&A includes a discussion and analysis of the activities and results of the primary government entity, Berger Hospital, and its component units of Pickaway Health Services (PHS), Pickaway Professional Services (PPS), and Berger Health Foundation (BHF).

This MD&A should be read together with the financial statements included in this report as the financial statements present the primary government entity and component units using the methods described in Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*, issued by the Governmental Accounting Standards Board.

### Financial Highlights

In total, the System's net position decreased \$1.25 million in 2014. Operating expenses of \$78.4 million exceeded operating revenues of \$76.9 million, producing a loss from operations of \$1.5 million. Cash and cash equivalents, including restricted cash, increased by \$6.7 million.

The following chart provides a breakdown of net position by category at December 31, 2014.





# BERGER HEALTH SYSTEM

---

Management's Discussion and Analysis (unaudited)

---

## Using This Annual Report

The System's financial statements consist of three statements - a statement of net position, a statement of operations and changes in net position, and a statement of cash flows. The financial statements and related notes provide information about activities of the System, including resources held by the System but restricted by specific purpose by contributors, bond indenture, grantors or enabling legislation.

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the financial statements in the above referred format, and notes to financial statements.

## The Statement of Net Position and the Statement of Operations and Changes in Net Position

One of the most important questions asked about the System's finances is, "Is the System as a whole better off or worse off as a result of the year's activities?" The statement of net position and statement of operations and changes in net position report information on the System as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the System's operating results.

These two statements report the System's net position and the changes in them. You can think of System's net position - the difference between assets and liabilities - as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, state and federal regulatory issues, condition of the buildings, and strength of the medical staff, to fully assess the overall health of the System.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

# BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

## Condensed Financial Information

The following is a comparative analysis of the major components of the statements of net position of the System as of December 31, 2014, 2013 and 2012:

	December 31		
	2014	2013	2012
<b>Assets</b>			
Current assets	\$ 30,244,101	\$ 35,461,545	\$ 40,776,868
Noncurrent assets	21,562,636	8,949,295	8,255,572
Capital assets	34,415,663	35,806,428	37,049,804
Total assets	<u>\$ 86,222,400</u>	<u>\$ 80,217,268</u>	<u>\$ 86,082,244</u>
<b>Liabilities</b>			
Current liabilities	\$ 7,255,006	\$ 10,325,522	\$ 11,762,171
Long-term liabilities	22,650,000	12,329,333	16,141,750
Total liabilities	<u>\$ 29,905,006</u>	<u>\$ 22,654,855</u>	<u>\$ 27,903,921</u>
<b>Net position</b>			
Net invested in capital assets	\$ 10,845,663	\$ 19,664,678	\$ 21,930,803
Restricted	8,623,836	1,901,965	741,652
Unrestricted	36,847,895	35,995,770	35,505,868
Total net position	<u>\$ 56,317,394</u>	<u>\$ 57,562,413</u>	<u>\$ 58,178,323</u>

Total assets increased 7%, driven by an increase in long term investments and assets whose use is limited. Total liabilities increased 32% during the year as a result of debt issuance in 2014. Net position decreased 2% due to negative operating results.

# BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

## Operating Results and Changes in the System's Net Position

The following is a comparative analysis of the statements of operations and changes in net position for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31		
	2014	2013	2012
<b>Operating revenues</b>			
Net patient service revenue	\$ 73,134,682	\$ 73,294,987	\$ 76,770,961
Other operating revenue	3,808,839	4,239,519	4,576,634
Total operating revenues	<u>76,943,521</u>	<u>77,534,506</u>	<u>81,347,595</u>
<b>Operating expenses</b>			
Salaries and wages	29,902,969	30,928,626	30,842,243
Employee benefits and payroll taxes	7,679,971	8,236,121	8,726,244
Supplies and other	20,558,381	20,864,618	22,251,166
Professional services and consultant fees	5,626,897	4,206,903	3,585,864
Purchased services	8,333,710	6,955,682	7,427,906
Insurance	687,517	739,354	808,144
Depreciation and amortization	4,557,913	4,718,747	4,952,957
State hospital assessment	1,048,178	1,125,484	1,126,350
Total operating expenses	<u>78,395,536</u>	<u>77,775,535</u>	<u>79,720,874</u>
<b>Operating Income (loss)</b>	(1,452,015)	(241,029)	1,626,721
<b>Other income (expense)</b>			
Interest income	105,325	62,079	75,341
(Loss) gain on sale of property	110,002	(95,417)	2,700
Contributions	82,313	101,060	146,168
Interest expense	(630,985)	(714,192)	(864,093)
Other expense	(699,746)	(714,570)	(726,243)
Total other income (expense)	<u>(1,033,091)</u>	<u>(1,361,040)</u>	<u>(1,366,127)</u>
<b>Excess of revenue over (under) expenses</b>	(2,485,106)	(1,602,069)	260,594
<b>Contributions of restricted assets</b>	<u>1,240,087</u>	<u>986,159</u>	<u>70,682</u>
<b>Change in net position</b>	(1,245,019)	(615,910)	331,276
<b>Net position, beginning of year</b>	<u>57,562,413</u>	<u>58,178,323</u>	<u>57,847,047</u>
<b>Net position, end of year</b>	<u>\$ 56,317,394</u>	<u>\$ 57,562,413</u>	<u>\$ 58,178,323</u>

# BERGER HEALTH SYSTEM

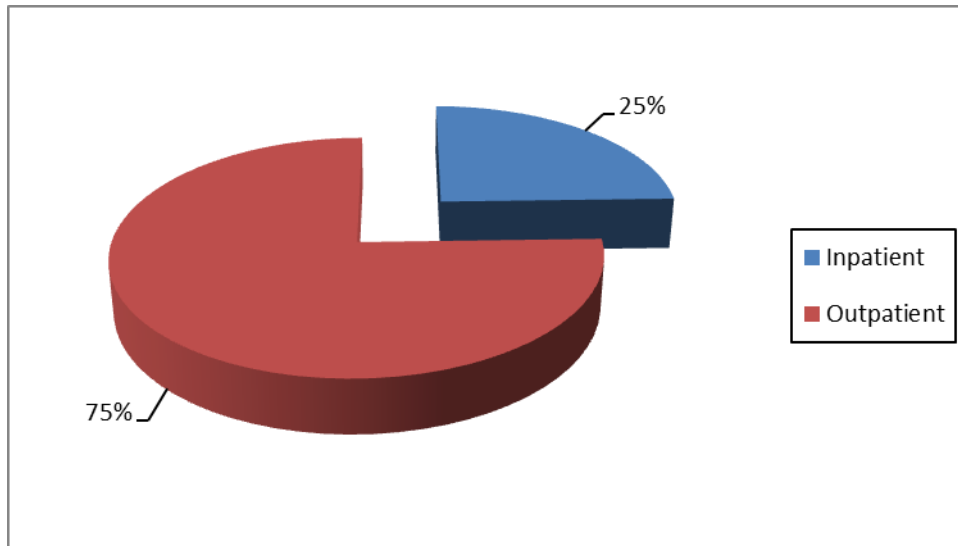
Management's Discussion and Analysis (unaudited)

## Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue decreased \$160,305. The decrease is attributed to a combination of fluctuations in gross revenue, contractuals and bad debt. Despite overall volume decreases, gross charges increased approximately \$4.2 million due to pricing and increased surgical volumes. Contractuals increased \$6.6 million due to payor mix shift towards Medicaid and a service shift to outpatient services. Bad debt decreased \$1.7 million due to Medicaid expansion.
- The following is a graphic illustration of patient revenues by source:



# BERGER HEALTH SYSTEM

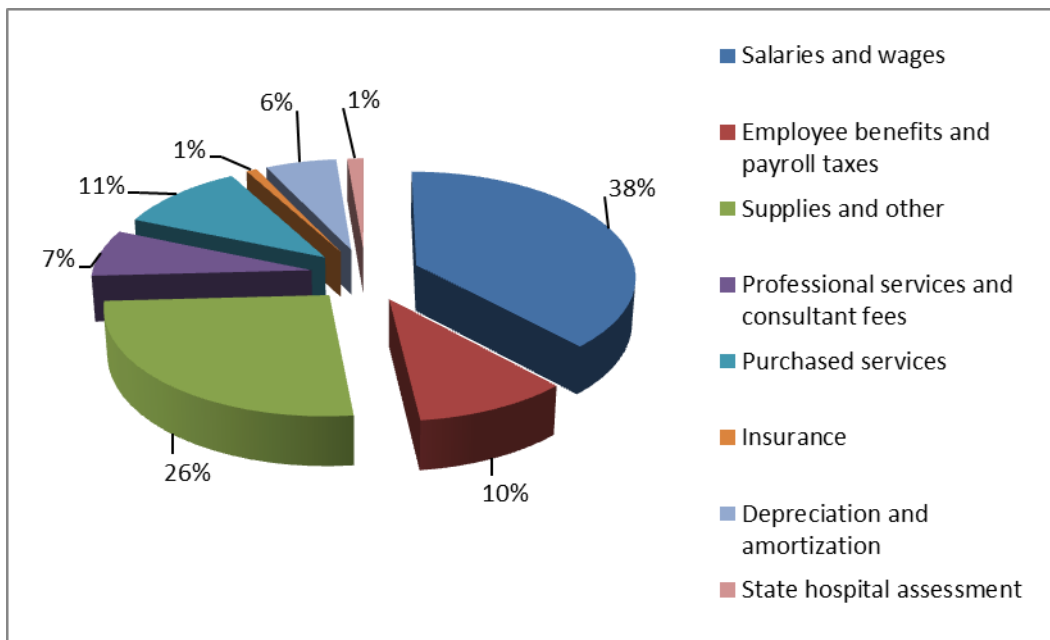
Management's Discussion and Analysis (unaudited)

## Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the System. The operating expense changes were primarily the result of:

- Salaries and wages decreased 3% due to focused efforts on effective full-time equivalent (FTE) management during patient volume decreases and shifts to outpatient services.
- Employee benefits decreased 7% due to decreased health claims. The System has continued to focus efforts on improving employee health and wellness.
- Professional services and consultant fees increased 34% due to the debt refinancing and strategic partnership process.
- Purchased services increased 20% mainly due to management agreements related to new or enhanced service lines including vein, wound, pain gastrointestinal, physical therapy and nutritional services.

The following is a graphic illustration of operating expenses by type:



## Other Income (Expense)

Other income (expense) includes interest transactions, Berger Medical Center lease, Foundation expenses, and gain/loss on property sales. Other income (expense) decreased 24% primarily due to the gain on property sale that occurred during the year.

# BERGER HEALTH SYSTEM

## Management's Discussion and Analysis (unaudited)

### Statement of Cash Flows

Another way to assess the financial health of the System is to look at the statement of cash flows. The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

- An entity's ability to generate future net cash flows
- The ability to meet its obligations as they come due
- The needs for external financing

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided by (used in):			
Operating activities	\$ 1,140,567	\$ 2,575,629	\$ 8,016,721
Investing activities	570,134	(366,954)	(1,636,441)
Capital and related financing activities	<u>4,954,177</u>	<u>(7,815,635)</u>	<u>(6,962,415)</u>
Total	6,664,878	(5,606,960)	(582,135)
Cash - beginning of year	<u>5,267,373</u>	<u>10,874,333</u>	<u>11,456,468</u>
Cash - end of year	<u>\$ 11,932,251</u>	<u>\$ 5,267,373</u>	<u>\$ 10,874,333</u>

Net cash flows provided by operating activities decreased from the prior year primarily due to decreases in operating income, driven by one-time costs attributed to the debt refinancing and strategic partner process.

Net cash flows provided by financing activities increased from the prior year due to debt issuance.

# BERGER HEALTH SYSTEM

Management's Discussion and Analysis (unaudited)

## Capital Asset and Debt Administration

### Capital Assets

At December 31, 2014, the Hospital had \$121.0 million invested in capital assets. Accumulated depreciation totaled \$87.3 million. Net capital assets totaled \$33.7 million. Depreciation totaled \$4.4 million during the year compared to \$4.6 million in 2013. A summary is shown below.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 5,253,139	\$ 5,152,333	\$ 4,880,681
Buildings and fixed equipment	61,026,633	59,153,747	57,930,697
Major moveable equipment	53,519,988	52,141,285	50,197,633
Construction in progress	<u>1,197,824</u>	<u>1,584,237</u>	<u>1,887,314</u>
Total capital assets	120,997,584	118,031,602	114,896,325
Less accumulated depreciation	<u>(87,320,936)</u>	<u>(83,065,412)</u>	<u>(78,813,392)</u>
Capital assets, net	<u>\$ 33,676,648</u>	<u>\$ 34,966,190</u>	<u>\$ 36,082,933</u>

The net capital assets for the component units were approximately \$739,000, \$840,000, and \$967,000 for 2014, 2013, and 2012, respectively.

### Debt

At year end, the System had \$23.6 million in long-term debt obligations outstanding compared to \$16.1 million the previous year. The table below summarizes these amounts by year.

	<u>2014</u>	<u>December 31 2013</u>	<u>2012</u>
Total note payable and bonds	<u>\$ 23,570,000</u>	<u>\$ 16,141,750</u>	<u>\$ 19,806,583</u>

More detailed information about the System's long-term liabilities is presented in the full notes to the financial statements.

# BERGER HEALTH SYSTEM

---

Management's Discussion and Analysis (unaudited)

---

## **Economic Factors and 2015 Budget**

The System's board and management considered many factors when setting the 2015 budget. Among the significant items addressed included macroeconomic trends affecting the health care industry, the impact of federal and state legislation, health care reform and Medicaid expansion.

In addition, the System entered into a strategic partnership with OhioHealth. As partners, Berger and OhioHealth will focus on pursuing opportunities to better local healthcare services. Over the next year, we expect community members will begin to see direct benefits of our partnership as we continue to enhance local access to expert cardiology services and expand the success we have had with this service to primary care, neurosciences and more. We will engage the community to assess the efforts of our partnership and identify new ways to enhance local healthcare.

During 2014, we approached our capital campaign goal of raising \$3 million to convert our semi-private rooms to single-patient rooms. We expect to exceed our goal early in 2015. Construction began in 2014 and will be completed in 2016.

In 2015, we will assess the impact of GASB 68 and 71. These new standards will change the recognition and reporting requirements for the Ohio Public Employees Retirement System pension plan (OPERS). The System will be required to report a portion of the unfunded liability on our financial statements and recognize any shifts in the total net unfunded liability of OPERS. The System funds the statutory OPERS contribution rate of 14%.

The System's board and management remains focused on providing high quality healthcare in our community. This will be accomplished by ensuring that care remains local, is sustainable for the long term and that it is delivered in a fiscally responsible manner. We are committed to strategically invest in the System to the continued benefit of Pickaway County.

## **Contacting the System's Financial Officer**

The report is designed to provide our citizens, customers and creditors with a general overview of the System's finances and to demonstrate the System's accountability. If you have questions about this report or need additional financial information, please contact the chief financial officer, Richard Filler, CPA, CMA at (740) 420-8089 or rich.filler@berger health.com.



# BERGER HEALTH SYSTEM

## STATEMENTS OF NET POSITION DECEMBER 31, 2014 AND 2013

	<b>ASSETS</b>			
	December 31, 2014		December 31, 2013	
	Hospital	Component Units	Hospital	Component Units
<b>Current assets</b>				
Cash and cash equivalents	\$ 5,249,143	\$ 1,027,170	\$ 4,086,012	\$ 1,007,207
Short-term investments	9,468,242	25,631	17,610,192	99,908
Net patient accounts receivable	8,034,787	684,407	7,714,795	665,239
Estimated third-party payor settlements	1,332,221	-	1,045,395	-
Prepaid expenses and other	2,639,073	299,512	1,405,872	471,272
Inventory	977,997	-	987,924	-
Current portion of pledges receivable	-	505,918	-	367,729
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	27,701,463	2,542,638	32,850,190	2,611,355
<b>Assets whose use is limited</b>				
Restricted cash and investments	5,655,938	1,750,347	174,154	771,961
<b>Long-term investments</b>	13,444,718	-	7,159,669	211,763
<b>Property and equipment, net</b>	33,676,648	739,015	34,966,190	840,238
<b>Long-term pledges receivable, net</b>	-	711,633	-	588,121
<b>Other assets</b>	-	-	43,627	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 80,478,767</u>	<u>\$ 5,743,633</u>	<u>\$ 75,193,830</u>	<u>\$ 5,023,438</u>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## STATEMENTS OF NET POSITION DECEMBER 31, 2014 AND 2013

### LIABILITIES AND NET POSITION

	December 31, 2014		December 31, 2013	
	Hospital	Component Units	Hospital	Component Units
<b>Current liabilities</b>				
Current portion of long-term debt	\$ 920,000	\$ -	\$ 3,812,417	\$ -
Accounts payable	3,063,291	277,635	2,506,511	527,090
Accrued compensation and related accruals	2,392,215	547,070	2,485,264	941,105
Accrued interest	54,795	-	53,135	-
Total current liabilities	6,430,301	824,705	8,857,327	1,468,195
<b>Long-term debt - net of current portion</b>	22,650,000	-	12,329,333	-
Total liabilities	29,080,301	824,705	21,186,660	1,468,195
<b>Net Position</b>				
Net invested in capital assets	10,106,648	739,015	18,824,440	840,238
Restricted	5,655,938	2,967,898	174,154	1,727,811
Unrestricted	35,635,880	1,212,015	35,008,576	987,194
Total net position	51,398,466	4,918,928	54,007,170	3,555,243
Total liabilities and net position	<u>\$ 80,478,767</u>	<u>\$ 5,743,633</u>	<u>\$ 75,193,830</u>	<u>\$ 5,023,438</u>

See accompanying notes to financial statements.

# BERGER HEALTH SYSTEM

## STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended			
	December 31, 2014		December 31, 2013	
	Hospital	Component Units	Hospital	Component Units
<b>Operating revenues</b>				
Net patient service revenue	\$ 65,685,629	\$ 7,449,053	\$ 65,849,675	\$ 7,445,312
Other operating revenue	2,768,596	1,040,243	3,211,630	1,027,889
<b>Total operating revenues</b>	<b>68,454,225</b>	<b>8,489,296</b>	<b>69,061,305</b>	<b>8,473,201</b>
<b>Operating expenses</b>				
Salaries and wages	22,034,476	7,868,493	23,004,196	7,924,430
Employee benefits and payroll taxes	6,334,841	1,345,130	6,969,633	1,266,488
Operating supplies and other	18,790,250	1,768,131	19,042,752	1,821,866
Professional services and consultant fees	5,603,196	23,701	4,182,733	24,170
Purchased services	6,401,807	1,931,903	5,206,743	1,748,939
Insurance	464,732	222,785	472,813	266,541
Depreciation and amortization	4,410,201	147,712	4,574,774	143,973
State hospital assessment	1,048,178	-	1,125,484	-
<b>Total operating expenses</b>	<b>65,087,681</b>	<b>13,307,855</b>	<b>64,579,128</b>	<b>13,196,407</b>
<b>Operating income (loss)</b>	<b>3,366,544</b>	<b>(4,818,559)</b>	<b>4,482,177</b>	<b>(4,723,206)</b>
<b>Other income (expenses)</b>				
Interest income	105,325	-	62,079	-
(Loss) gain on sale of property	110,002	-	(95,417)	-
Contributions	82,313	-	94,199	6,861
Interest expense	(630,985)	-	(714,192)	-
Other expense	(572,664)	(127,082)	(525,849)	(188,721)
<b>Total other expenses</b>	<b>(906,009)</b>	<b>(127,082)</b>	<b>(1,179,180)</b>	<b>(181,860)</b>
<b>Contribution (to) from component units</b>	<b>(5,069,239)</b>	<b>5,069,239</b>	<b>(4,858,209)</b>	<b>4,858,209</b>
<b>Excess of revenue over (under) expenses</b>	<b>(2,608,704)</b>	<b>123,598</b>	<b>(1,555,212)</b>	<b>(46,857)</b>
<b>(Expenditures) contributions of restricted assets</b>	<b>-</b>	<b>1,240,087</b>	<b>(23,656)</b>	<b>1,009,815</b>
<b>Change in net position</b>	<b>(2,608,704)</b>	<b>1,363,685</b>	<b>(1,578,868)</b>	<b>962,958</b>
<b>Net position - beginning of year</b>	<b>54,007,170</b>	<b>3,555,243</b>	<b>55,586,038</b>	<b>2,592,285</b>
<b>Net position - end of year</b>	<b>\$ 51,398,466</b>	<b>\$ 4,918,928</b>	<b>\$ 54,007,170</b>	<b>\$ 3,555,243</b>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended			
	2014		2013	
	Hospital	Component Units	Hospital	Component Units
<b>Operating activities</b>				
Cash received from patients and third-party payors	\$ 65,078,811	\$ 7,429,885	\$ 65,406,310	\$ 7,379,741
Cash payments to suppliers for services and goods	(32,821,028)	(4,024,215)	(30,388,371)	(3,894,409)
Cash payments to employees for salaries, wages and benefits	(28,462,366)	(9,607,658)	(31,018,204)	(9,148,957)
Other operating revenue	<u>2,768,596</u>	<u>778,542</u>	<u>3,211,630</u>	<u>1,027,889</u>
Net cash flows from operating activities	6,564,013	(5,423,446)	7,211,365	(4,635,736)
<b>Investing activities</b>				
Proceeds from investments	18,017,964	300,789	469,945	(193,714)
Cash paid for investments	(16,161,063)	(993,135)	-	-
Interest income and other	<u>(467,339)</u>	<u>(127,082)</u>	<u>(461,325)</u>	<u>(181,860)</u>
Net cash flows from investing activities	1,389,562	(819,428)	8,620	(375,574)
<b>Cash flows from noncapital financing activities</b>				
Contributions to component units	<u>(5,069,239)</u>	<u>5,069,239</u>	<u>(4,858,209)</u>	<u>4,858,209</u>
Net cash from noncapital financing activities	(5,069,239)	5,069,239	(4,858,209)	4,858,209
<b>Capital and related financing activities</b>				
Acquisition and construction of capital assets	(3,149,259)	(46,489)	(3,531,480)	(17,340)
Proceeds from disposal of capital assets	138,602	-	-	-
Loss (gain) on disposal of capital assets	(110,002)	-	95,417	-
Grants and contributions	82,313	1,240,087	-	-
Issuance of long-term debt	24,000,000	-	-	-
Interest paid on long-term debt	(629,325)	-	(727,708)	-
Principal payments on long-term debt	(16,571,750)	-	(3,664,833)	-
Other capital related expenditures	<u>-</u>	<u>-</u>	<u>(23,656)</u>	<u>53,965</u>
Net cash flows from capital and related financing activities	<u>3,760,579</u>	<u>1,193,598</u>	<u>(7,852,260)</u>	<u>36,625</u>
<b>Change in cash and cash equivalents</b>	6,644,915	19,963	(5,490,484)	(116,476)
Cash and cash equivalents - beginning of year	<u>4,260,166</u>	<u>1,007,207</u>	<u>9,750,650</u>	<u>1,123,683</u>
Cash and cash equivalents- end of year	<u>\$ 10,905,081</u>	<u>\$ 1,027,170</u>	<u>\$ 4,260,166</u>	<u>\$ 1,007,207</u>
<b>Balance sheet classification of cash</b>				
Cash and cash equivalents	\$ 5,249,143	\$ 1,027,170	\$ 4,086,012	\$ 1,007,207
Restricted cash and cash equivalents	<u>5,655,938</u>	<u>-</u>	<u>174,154</u>	<u>-</u>
	<u>\$ 10,905,081</u>	<u>\$ 1,027,170</u>	<u>\$ 4,260,166</u>	<u>\$ 1,007,207</u>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014		2013	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	\$ 3,366,544	\$ (4,818,559)	\$ 4,482,177	\$ (4,723,206)
<b>Adjustments to reconcile operating income (loss) to net cash from operating activities</b>				
Depreciation	4,410,201	147,712	4,574,774	143,973
Provision for bad debt	3,454,702	454,229	5,037,093	530,902
Changes in assets and liabilities				
Patient accounts receivable	(3,774,694)	(473,397)	(5,480,458)	(596,473)
Other assets	(1,071,305)	(89,941)	263,892	(229,561)
Accounts payable and accrued liabilities	465,391	(643,490)	(1,572,862)	238,629
Estimated third party settlements	(286,826)	-	(93,251)	-
Net cash flows from operating activities	<u>\$ 6,564,013</u>	<u>\$ (5,423,446)</u>	<u>\$ 7,211,365</u>	<u>\$ (4,635,736)</u>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2014

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Current assets</b>				
Cash and cash equivalents	\$ 39,469	\$ 37,772	\$ 949,929	\$ 1,027,170
Short-term investments	-	-	25,631	25,631
Net patient accounts receivable	578,842	105,565	-	684,407
Prepaid expenses and other	202,823	20,124	76,565	299,512
Current portion of pledges receivable	-	-	505,918	505,918
Total current assets	821,134	163,461	1,558,043	2,542,638
<b>Assets whose use is limited</b>				
Restricted cash and investments	-	-	1,750,347	1,750,347
<b>Property and equipment, net</b>	353,048	-	385,967	739,015
<b>Long-term pledges receivable, net</b>	-	-	711,633	711,633
Total assets	<u>\$ 1,174,182</u>	<u>\$ 163,461</u>	<u>\$ 4,405,990</u>	<u>\$ 5,743,633</u>
<b>Current liabilities</b>				
Accounts payable	\$ 256,475	\$ 12,210	\$ 8,950	\$ 277,635
Accrued compensation and related accruals	470,593	70,506	5,971	547,070
Total current liabilities	727,068	82,716	14,921	824,705
Total liabilities	727,068	82,716	14,921	824,705
<b>Net position</b>				
Net invested in capital assets	353,048	-	385,967	739,015
Restricted	-	-	2,967,898	2,967,898
Unrestricted	94,066	80,745	1,037,204	1,212,015
Total net position	447,114	80,745	4,391,069	4,918,928
Total liabilities and net position	<u>\$ 1,174,182</u>	<u>\$ 163,461</u>	<u>\$ 4,405,990</u>	<u>\$ 5,743,633</u>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2013

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Current assets</b>				
Cash and cash equivalents	\$ 23,662	\$ 25,414	\$ 958,131	\$ 1,007,207
Short-term investments	-	-	99,908	99,908
Net patient accounts receivable	549,533	115,706	-	665,239
Prepaid expenses and other	311,022	8,996	151,254	471,272
Current portion of pledges receivable	-	-	367,729	367,729
Total current assets	884,217	150,116	1,577,022	2,611,355
<b>Assets whose use is limited</b>				
Restricted cash and investments	-	-	771,961	771,961
<b>Long-term investments</b>	211,763	-	-	211,763
<b>Property and equipment, net</b>	454,271	-	385,967	840,238
<b>Long-term pledges receivable, net</b>	-	-	588,121	588,121
Total assets	<u>\$ 1,550,251</u>	<u>\$ 150,116</u>	<u>\$ 3,323,071</u>	<u>\$ 5,023,438</u>
<b>Current liabilities</b>				
Accounts payable	\$ 412,850	\$ 14,676	\$ 99,564	\$ 527,090
Accrued compensation and related accruals	786,580	136,559	17,966	941,105
Total current liabilities	1,199,430	151,235	117,530	1,468,195
Total liabilities	1,199,430	151,235	117,530	1,468,195
<b>Net position</b>				
Net invested in capital assets	454,271	-	385,967	840,238
Restricted	-	-	1,727,811	1,727,811
Unrestricted	(103,450)	(1,119)	1,091,763	987,194
Total net position	<u>350,821</u>	<u>(1,119)</u>	<u>3,205,541</u>	<u>3,555,243</u>
Total liabilities and net position	<u>\$ 1,550,251</u>	<u>\$ 150,116</u>	<u>\$ 3,323,071</u>	<u>\$ 5,023,438</u>

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Operating revenues</b>				
Net patient service revenue	\$ 6,379,451	\$ 1,069,602	\$ -	\$ 7,449,053
Other operating revenue	402,980	263,602	373,661	1,040,243
Total operating revenues	6,782,431	1,333,204	373,661	8,489,296
<b>Operating expenses</b>				
Salaries and wages	6,559,921	1,180,469	128,103	7,868,493
Employee benefits and payroll taxes	1,103,048	216,262	25,820	1,345,130
Operating supplies and other	1,689,019	53,210	25,902	1,768,131
Professional services and consultant fees	-	23,701	-	23,701
Purchased services	1,665,397	109,351	157,155	1,931,903
Insurance	222,785	-	-	222,785
Depreciation and amortization	147,712	-	-	147,712
Total operating expenses	11,387,882	1,582,993	336,980	13,307,855
<b>Operating income (loss)</b>	(4,605,451)	(249,789)	36,681	(4,818,559)
<b>Other income (expenses)</b>				
Other	24,259	2	(151,343)	(127,082)
Total other income (expenses)	24,259	2	(151,343)	(127,082)
<b>Contribution from Hospital</b>	4,677,485	331,651	60,103	5,069,239
<b>Excess of revenue over expenses</b>	96,293	81,864	(54,559)	123,598
<b>Contributions of restricted assets</b>	-	-	1,240,087	1,240,087
<b>Change in net position</b>	96,293	81,864	1,185,528	1,363,685
<b>Net position - beginning of year</b>	350,821	(1,119)	3,205,541	3,555,243
<b>Net position - end of year</b>	\$ 447,114	\$ 80,745	\$ 4,391,069	\$ 4,918,928

*See accompanying notes to financial statements.*



# BERGER HEALTH SYSTEM

## COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2013

	Pickaway Health Services	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
<b>Operating revenues</b>				
Net patient service revenue	\$ 6,435,054	\$ 1,010,258	\$ -	\$ 7,445,312
Other operating revenue	235,678	323,323	468,888	1,027,889
Total operating revenues	6,670,732	1,333,581	468,888	8,473,201
<b>Operating expenses</b>				
Salaries and wages	6,510,790	1,247,771	165,869	7,924,430
Employee benefits and payroll taxes	997,838	244,960	23,690	1,266,488
Operating supplies and other	1,759,530	39,714	22,622	1,821,866
Professional services and consultant fees	-	24,170	-	24,170
Purchased services	1,458,778	66,746	223,415	1,748,939
Insurance	266,012	-	529	266,541
Depreciation and amortization	143,973	-	-	143,973
Total operating expenses	11,136,921	1,623,361	436,125	13,196,407
<b>Operating income (loss)</b>	(4,466,189)	(289,780)	32,763	(4,723,206)
<b>Other income (expenses)</b>				
Contributions	-	-	6,861	6,861
Other expense	3,073	-	(191,794)	(188,721)
Total other income (expenses)	3,073	-	(184,933)	(181,860)
<b>Contribution from Hospital</b>	4,326,500	306,656	225,053	4,858,209
<b>Excess of revenue over (under) expenses</b>	(136,616)	16,876	72,883	(46,857)
<b>Contributions of restricted assets</b>	-	-	1,009,815	1,009,815
<b>Change in net position</b>	(136,616)	16,876	1,082,698	962,958
<b>Net position - beginning of year</b>	487,437	(17,995)	2,122,843	2,592,285
<b>Net position - end of year</b>	\$ 350,821	\$ (1,119)	\$ 3,205,541	\$ 3,555,243

*See accompanying notes to financial statements.*

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Berger Health System (the "System"), a component of the City of Circleville, located in Circleville, Ohio, is an acute-care hospital and related entities operated by a board of governors pursuant to an equal ownership agreement between the City of Circleville, Ohio and Pickaway County. The Board comprises nine (9) members: the Mayor of Circleville; three representatives appointed by the City, of which one must be a medical doctor; three representatives appointed by the County; and two at-large members selected and elected by the Board. As provided by the Board Bylaws, the Board may elect no more than two (2) ex-officio members. One ex-officio member, a physician, currently serves on the Board. At all times, a majority of the Board members must be residents of Pickaway County. Pursuant to the agreement, the chairperson is elected by the Board. The Hospital is considered a political subdivision of a state and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code.

#### Discretely Presented Component Units

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

Pickaway Professional Services (PPS) provides anesthesia care and related professional services in the geographic area served by the Hospital. PPS is a corporation which was formed under Chapter 1785 of the Ohio Revised Code on October 25, 2005.

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

The System created Berger Health Foundation Ventures, LLC (Ventures). Ventures was created to facilitate the System in performing activities permitted in Ohio by limited liability companies within the System's market area. Ventures was organized as a limited liability company whose sole member is Berger Health Foundation on October 31, 2006.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The accompanying basic financial statements include the accounts of Berger Hospital (the "Hospital"), Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation (collectively, the "System"). Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation are collectively the "component units" of the Hospital. Separate financial statements for the component units are not available.

### Basis of Presentation

The financial statements include the accounts of Berger Hospital and its component units, Pickaway Health Services, Pickaway Professional Services, and Berger Health Foundation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The System follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the System's financial activities.

### 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.

### Proprietary Fund Accounting

The System utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

### Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased, typically with an original maturity of three months or less

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include assets designated for future debt payments, bond proceeds held for future capital acquisitions, or purchase of equipment under capital lease obligations. Bond proceeds held for future capital acquisitions classified as restricted cash and cash equivalents totaled approximately \$5,656,000 and \$174,000 at December 31, 2014 and 2013, respectively.

### Investments

Investments include certificates of deposit, money market accounts, and government securities and are recorded at fair value on the statement of net position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other income when earned.

### Patient Accounts Receivable

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

### Inventories

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

### Assets Whose Use is Limited

Assets whose use is limited consist of funds restricted in connection with the System's revenue bonds for the replacement, improvement, and expansion of the System's facilities.

Investment income or loss (including unrealized gains and losses on investments, realized gains and losses on investments, interest, and dividends) is included in non-operating gains (losses).

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Property and Equipment

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

### Compensated Absences

Paid time off is charged to operations when earned. Unused and earned benefits are classified as current and long-term liabilities in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement.

### 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 restricted resources before unrestricted resources.

### Classification of Net Position

Net position of the System is classified in three components. Invested in capital assets - net of related debt consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable assets represent noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System. Unrestricted net position consists of the remaining net position that does not meet the definition of invested in capital assets - net of related debt or restricted.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Net Patient Service Revenue

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

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

The System estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the System.

### Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Electronic Health Records Incentive Payments

The System receives EHR incentive payments under the Medicare program. To qualify for these payments, the System must meet “meaningful use” criteria that become more stringent over time. The System periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the System’s cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The System recognizes EHR incentive payments as grant income when there is reasonable assurance that the System will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the System recognized approximately \$916,000 and \$1,548,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the System records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the statement of operations and changes in net position. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the System as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### 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.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Operating Revenue and Expenses

The System's statement of operations and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services - the System's principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### Charity Care

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

Of the Hospital's total operating expenses (approximately \$65,088,000 and \$64,579,000 during 2014 and 2013, respectively), an estimated \$253,000 and \$484,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$666,000 and \$690,000 for 2014 and 2013, respectively, and are reported as net patient service revenue in the financial statements.

### 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.

### Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.



# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 6, 2015, which is the date the financial statements are issued.

## 2. DEPOSITS AND INVESTMENTS

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

The System has designated five banks for the deposit of its funds. An investment policy has been filed with the Auditor of State on behalf of the System. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, State of Ohio, certificates of deposit, and the Ohio subdivision's fund (STAR Ohio).

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.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

**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:

- 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.
- Bonds, note debentures, or other obligations or securities issued by any federal governmental agency.
- No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- 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.
- Bonds and other obligations of the State of Ohio.
- The Ohio State Treasurer's investment pool (STAR Ohio).
- Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, Section 135.142.
- 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 (FDIC), 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, 2014 AND 2013

---

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 \$11,216,000 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.

**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. Investments in U.S. government asset backed securities were uninsured and held by the System's agent in the System'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.

**Credit Risk** - The System does not have an investment policy that addresses credit risk. The System maintains its investments in accounts which at times may exceed federally insured limits. The System has not experienced any losses in such accounts. The System believes that it is not exposed to any significant credit risk on investments.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

STAR Ohio funds are held in the fund in the System's name. All other funds are held in the System's name by a custodial bank that is an agent of the System.

<b>Hospital</b>		Maturities	
December 31, 2014	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 258,261	\$ 258,261	\$ -
U.S. treasury notes	10,733,158	2,867,270	7,865,888
U.S. agency bonds	11,864,201	6,285,371	5,578,830
Total	<u>\$ 22,855,620</u>	<u>\$ 9,410,902</u>	<u>\$ 13,444,718</u>

<b>Component Units</b>		Maturities	
December 31, 2014	Carrying Amount	< 1 year	> 1 year
Certificates of Deposit	\$ 167,570	\$ 167,570	\$ -
Total	<u>\$ 167,570</u>	<u>\$ 167,570</u>	<u>\$ -</u>

<b>Hospital</b>		Maturities	
December 31, 2013	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	\$ 258,190	\$ 258,190	\$ -
U.S. treasury notes	5,347,153	2,762,463	2,584,690
U.S. agency bonds	17,158,405	13,281,867	3,876,538
Total	<u>\$ 22,763,748</u>	<u>\$ 16,302,520</u>	<u>\$ 6,461,228</u>

<b>Component Units</b>		Maturities	
December 31, 2013	Carrying Amount	< 1 year	> 1 year
Certificates of Deposit	\$ 165,240	\$ 165,240	\$ -
Total	<u>\$ 165,240</u>	<u>\$ 165,240</u>	<u>\$ -</u>

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Cash deposits and investments of the System composed of the following:

	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
<b>Hospital</b>				
Demand deposits (including restricted)	\$ 10,905,081	\$ 10,905,081	\$ 6,208,968	\$ 6,208,968
Money market	57,340	57,340	57,311	57,311
Certificates of deposit	258,261	258,000	258,190	258,000
U.S. treasury notes	10,733,158	10,718,288	5,347,153	5,158,098
U.S. agency bonds	11,864,201	11,829,643	17,158,405	17,389,513
Total	\$ 33,818,041	\$ 33,768,352	\$ 29,030,027	\$ 29,071,890

	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 5,249,143	\$ 5,249,143	\$ 4,086,012	\$ 4,086,012
Assets whose use is limited	5,655,938	5,655,938	174,154	174,154
Investments	22,912,960	22,863,271	24,769,861	24,811,724
Total	\$ 33,818,041	\$ 33,768,352	\$ 29,030,027	\$ 29,071,890

	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
<b>Component Units</b>				
Demand deposits	\$ 2,075,237	\$ 2,075,237	\$ 1,226,850	\$ 1,226,850
Certificates of deposit	167,570	167,570	165,240	165,240
Mutual funds	560,341	492,742	486,986	422,291
Common stock	-	-	211,763	176,000
Total	\$ 2,803,148	\$ 2,735,549	\$ 2,090,839	\$ 1,990,381

	2014		2013	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 1,027,170	\$ 1,027,170	\$ 1,007,207	\$ 1,007,207
Assets whose use is limited	1,750,347	1,687,120	311,671	258,565
Investments	25,631	21,259	771,961	724,609
Total	\$ 2,803,148	\$ 2,735,549	\$ 2,090,839	\$ 1,990,381

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Money markets: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

U.S. treasury notes: Valued using pricing models maximizing the use of observable inputs for similar securities.

U.S. agency bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Mutual funds: Valued at the daily closing prices as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the System are deemed to be actively traded.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

The System's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2014 and 2013.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

<b>Hospital</b>	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	\$ -	\$ 57,340	\$ -	\$ 57,340
U.S. treasury notes	-	10,733,158	-	10,733,158
U.S agency bonds				
Federal home loans	-	6,182,863	-	6,182,863
Federal National Mortgage Association	-	4,082,779	-	4,082,779
Federal Home Loan Mortgage Corporation	-	1,598,559	-	1,598,559
	-	22,654,699	-	22,654,699
Cash	-	-	-	10,905,081
Certificates of deposit	-	-	-	258,261
Total	<u>\$ -</u>	<u>\$ 22,654,699</u>	<u>\$ -</u>	<u>\$ 33,818,041</u>

<b>Component Units</b>	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Large growth	\$ 66,107	\$ -	\$ -	\$ 66,107
Moderate allocation	210,349	-	-	210,349
World allocation	204,613	-	-	204,613
Short-term bond	79,272	-	-	79,272
	560,341	-	-	560,341
Cash	-	-	-	2,075,237
Certificate of deposit	-	-	-	167,570
Total	<u>\$ 560,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,803,148</u>

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are as follows:

<b>Hospital</b>	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	\$ -	\$ 57,311	\$ -	\$ 57,311
U.S. treasury notes	-	5,347,153	-	5,347,153
U.S. agency bonds				
Federal home loans	-	3,772,679	-	3,772,679
Federal National Mortgage Association	-	4,829,619	-	4,829,619
Federal Home Loan Mortgage Corporation	-	8,198,951	-	8,198,951
Federal Farm Credits	-	357,156	-	357,156
	-	22,562,869	-	22,562,869
Cash	-	-	-	6,208,968
Certificates of deposit	-	-	-	258,190
Total	<u>\$ -</u>	<u>\$ 22,562,869</u>	<u>\$ -</u>	<u>\$ 29,030,027</u>

<b>Component Units</b>	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds				
Large growth	\$ 55,918	\$ -	\$ -	\$ 55,918
Moderate allocation	177,972	-	-	177,972
World allocation	180,983	-	-	180,983
Short-term bond	72,113	-	-	72,113
Common stock	211,763	-	-	211,763
	698,749	-	-	698,749
Cash	-	-	-	1,226,850
Certificate of deposit	-	-	-	165,240
Total	<u>\$ 698,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,090,839</u>

## 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	Hospital	
	2014	2013
Patient accounts receivable	\$ 18,101,005	\$ 17,841,795
Less allowance for uncollectible accounts	(2,188,988)	(3,467,000)
Less allowance for contractual adjustments	(7,877,230)	(6,660,000)
Net patient accounts receivable	<u>\$ 8,034,787</u>	<u>\$ 7,714,795</u>

	Component Units	
	2014	2013
Patient accounts receivable	\$ 1,326,491	\$ 1,268,239
Less allowance for uncollectible accounts	(113,860)	(100,000)
Less allowance for contractual adjustments	(528,224)	(503,000)
Net patient accounts receivable	<u>\$ 684,407</u>	<u>\$ 665,239</u>



# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

	2014		2013	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	14%	27%	29%	29%
Medicare managed	11%	19%	17%	19%
Medicaid	2%	4%	5%	3%
Medicaid managed	22%	19%	14%	14%
Commercial	33%	28%	29%	29%
Self-pay	18%	3%	6%	6%
	100%	100%	100%	100%

### 5. PLEDGES RECEIVABLE

In 2013, the Foundation began a five year capital campaign to raise funds for capital improvements to be made to the Hospital. Pledges receivable associated with the campaign as of December 31, 2014 and December 31, 2013 follows:

	December 31, 2014	December 31, 2013
Receivable in less than one year	\$ 570,503	\$ 533,573
Receivable in one to five years	849,676	546,351
Total unconditional promises to give	1,420,179	1,079,924
Less discounts to net present value	(124,730)	(112,312)
Less allowance for uncollectible promises	(77,898)	(11,762)
Net unconditional promises to give	\$ 1,217,551	\$ 955,850

The rate used to discount unconditional promises to net present value was 6% for 2014 and 2013. The rate used to calculate the allowance for uncollectible amounts was 6% in 2014 and 2013.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

The System has agreements with payors that provide for reimbursement to the System at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the System's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

- **Medicare** - Inpatient, acute-care 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. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, 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 changes in rates, or the payment system itself, could have a material impact on the 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. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. 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. Cost Reports have been final settled through 2009 for Medicare and 2007 for Medicaid.

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

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 7. PROPERTY AND EQUIPMENT

Property and equipment for the Hospital for the years ended December 31, 2014 and 2013 were as follows:

	2013	Additions	Transfers	Retirements	2014
Capital assets not being depreciated:					
Land	\$ 3,259,958	\$ -	\$ -	\$ (24,227)	\$ 3,235,731
Construction in progress	1,584,237	1,861,857	(2,248,270)	-	1,197,824
Subtotal	4,844,195	1,861,857	(2,248,270)	(24,227)	4,433,555
Capital assets being depreciated:					
Land improvements	1,892,375	1,841	123,192	-	2,017,408
Buildings	35,656,641	-	-	(123,736)	35,532,905
Building improvements	23,497,106	852	2,031,084	(35,314)	25,493,728
Equipment	52,141,285	1,284,709	93,994	-	53,519,988
Subtotal	113,187,407	1,287,402	2,248,270	(159,050)	116,564,029
Total capital assets	118,031,602	3,149,259	-	(183,277)	120,997,584
Accumulated depreciation:					
Land improvements	1,783,797	54,782	-	-	1,838,579
Buildings	20,317,998	1,381,715	-	(130,410)	21,569,303
Building improvements	15,728,026	1,145,363	-	(24,267)	16,849,122
Equipment	45,235,591	1,828,341	-	-	47,063,932
Subtotal	83,065,412	4,410,201	-	(154,677)	87,320,936
Net capital assets	\$ 34,966,190	\$ (1,260,942)	\$ -	\$ (28,600)	\$ 33,676,648
	2012	Additions	Transfers	Retirements	2013
Capital assets not being depreciated:					
Land	\$ 3,259,958	\$ -	\$ -	\$ -	\$ 3,259,958
Construction in progress	1,887,314	1,478,115	(1,781,192)	-	1,584,237
Subtotal	5,147,272	1,478,115	(1,781,192)	-	4,844,195
Capital assets being depreciated:					
Land improvements	1,620,723	5,000	266,652	-	1,892,375
Buildings	35,843,629	-	88,000	(274,988)	35,656,641
Building improvements	22,087,068	146,863	1,263,175	-	23,497,106
Equipment	50,197,633	1,901,502	163,365	(121,215)	52,141,285
Subtotal	109,749,053	2,053,365	1,781,192	(396,203)	113,187,407
Total capital assets	114,896,325	3,531,480	-	(396,203)	118,031,602
Accumulated depreciation:					
Land improvements	1,725,207	58,590	-	-	1,783,797
Buildings	19,218,647	1,278,922	-	(179,571)	20,317,998
Building improvements	14,666,339	1,061,687	-	-	15,728,026
Equipment	43,203,199	2,153,607	-	(121,215)	45,235,591
Subtotal	78,813,392	4,552,806	-	(300,786)	83,065,412
Net capital assets	\$ 36,082,933	\$ (1,021,326)	\$ -	\$ (95,417)	\$ 34,966,190

Capital asset activity for the component units for the years ended December 31, 2014 and 2013 included approximately \$46,000 and \$19,000 of additions and \$148,000 and \$144,000 of depreciation, respectively.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Depreciation expense on capital assets for the Hospital and component units for the years ended December 31, 2014 and 2013 totaled approximately \$4,558,000 and \$4,697,000, respectively.

### 8. ACCRUED COMPENSATION AND RELATED ACCRUALS

<b>Hospital</b>	2014	2013
Payroll and related items	\$ 1,829,714	\$ 2,034,929
Self-insured benefits	203,084	187,000
Health insurance claims	359,417	263,335
Total accrued compensation and related accruals	\$ 2,392,215	\$ 2,485,264
<b>Component units</b>	2014	2013
Payroll and related items	\$ 456,241	\$ 783,138
Self-insured benefits	21,168	21,167
Health insurance claims	69,661	136,800
Total accrued compensation and related accruals	\$ 547,070	\$ 941,105

### 9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2014 for both the Hospital and component units was as follows:

	2013	Current Year Additions	Current Year Reductions	2014	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 3.8 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 563,750	\$ -	\$ (563,750)	\$ -	\$ -
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing in December 2017)	7,789,000	-	(7,789,000)	-	-
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010B (maturing in December 2017)	7,789,000	-	(7,789,000)	-	-
City of Circleville, Ohio Hospital Facilities Revenue Refunding and Improvement Bonds, series 2014 (maturing in June 2034)	-	24,000,000	(430,000)	23,570,000	920,000
Total long-term debt and other liabilities	\$ 16,141,750	\$ 24,000,000	\$ (16,571,750)	\$ 23,570,000	\$ 920,000

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

	2012	Current Year Additions	Current Year Reductions	2013	Amounts Due Within One Year
Loan payable to City of Circleville, variable interest ranging from 3.8 percent to 5.4 percent, payable in monthly installments ranging from \$13,340 to \$13,838, including interest, maturing in 2017	\$ 689,583	\$ -	\$ (125,833)	\$ 563,750	\$ 135,417
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 2010A (maturing in December 2017)	9,558,500	-	(1,769,500)	7,789,000	1,838,500
City of Circleville, Ohio Hospital Facilities Revenue Bonds, 20108 (maturing in December 2017)	9,558,500	-	(1,769,500)	7,789,000	1,838,500
<b>Total long-term debt and other liabilities</b>	<b>\$ 19,806,583</b>	<b>\$ -</b>	<b>\$ (3,664,833)</b>	<b>\$ 16,141,750</b>	<b>\$ 3,812,417</b>

On May 1, 2014, the System entered into a financing agreement with the City, in which the City issued \$24,000,000 of Hospital Facilities Revenue Refunding and Improvements Bonds. The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2014 Bonds mature in quarterly principal installments ranging from \$215,000 in September 2014 to \$390,000 in June 2034 at a fixed rate of 2.67 percent.

In conjunction with the Series 2014 Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. The System believes it is in compliance with these covenants at December 31, 2014.

Substantially all assets and the assignment of profits from the System have been pledged as collateral against retirement of the Series 2014 Bonds.

The following is a schedule by years of bond principal and interest repayments:

Years Ending December 31	Long-term Debt	
	Principal	Interest
2015	\$ 920,000	\$ 628,899
2016	955,000	605,164
2017	980,000	577,360
2018	1,020,000	550,492
2019	1,030,000	522,743
2020-2024	5,635,000	2,175,228
2025-2029	6,435,000	1,360,652
2030-2034	6,595,000	432,155
Total	<u>\$ 23,570,000</u>	<u>\$ 6,852,693</u>

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Hospital leases various equipment and facilities under operating lease arrangements. The following is a schedule of minimum operating lease payments by year as of December 31, 2014:

<u>Years Ending December 31</u>	<u>Minimum Annual Lease Payments</u>
2015	\$ 1,123,808
2016	1,031,578
2017	679,674
2018	466,486
Thereafter	3,060,654
Total	<u>\$ 6,362,200</u>

Total rent expense for the years ended December 31, 2014 and 2013 was approximately \$935,000 and \$1,000,000, respectively, for the Hospital. Total rent expense for the years ended December 31, 2014 and 2013 was approximately \$780,000 and \$849,000, respectively, for the component units. The majority of this expense is intercompany and the corresponding revenue is recorded in the Hospital.

### 10. COMMITMENTS

The System is committed to contracts related to converting semi-private rooms to private rooms, as well as the expansion and modernization of the System's facilities. These commitments total approximately \$981,000 and are expected to be completed in 2016.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 11. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

<b>Hospital</b>	<u>2014</u>	<u>2013</u>
Patient Revenue:		
Inpatient services	\$ 45,020,066	\$ 50,564,281
Outpatient services	<u>125,836,986</u>	<u>116,213,390</u>
Total patient revenue	170,857,052	166,777,671
Revenue deductions:		
Provision for contractual allowances	101,053,798	94,640,678
Provision for bad debt allowances	3,454,702	5,037,093
Charity care	<u>662,923</u>	<u>1,250,225</u>
Total revenue deductions	<u>105,171,423</u>	<u>100,927,996</u>
Total net patient service revenue	<u>\$ 65,685,629</u>	<u>\$ 65,849,675</u>
<b>Component units</b>	<u>2014</u>	<u>2013</u>
Patient Revenue:		
Outpatient services	<u>\$ 12,493,473</u>	<u>\$ 12,384,356</u>
Total patient revenue	12,493,473	12,384,356
Revenue deductions:		
Provision for contractual allowances	4,590,191	4,408,142
Provision for bad debt allowances	<u>454,229</u>	<u>530,902</u>
Total revenue deductions	<u>5,044,420</u>	<u>4,939,044</u>
Total net patient service revenue	<u>\$ 7,449,053</u>	<u>\$ 7,445,312</u>

### 12. DEFINED BENEFIT PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan– a defined contribution plan; and the Combined Plan– a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 Comprehensive Annual Financial Report for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

### Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014 and 2013, state and local employers contributed at a rate of 14.0% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. The portion of employer contributions allocated to health care was 2.0% and 1.0% during calendar year 2014 and 2013, respectively. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.



# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

<u>Year</u>	<u>Contribution</u>
2014	\$ 2,956,000
2013	\$ 3,110,000
2012	\$ 3,151,000

Hospital contributions made to fund post-employment healthcare benefits approximated \$422,000, \$222,000 and \$900,000 for 2014, 2013 and 2012, respectively, which are included in the table above.

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

### 13. 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 additional coverage limits.

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

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

# BERGER HEALTH SYSTEM

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

---

### 14. SELF-INSURED BENEFITS

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per employee. Claims, charged to operations and paid when incurred, were approximately \$4,700,000 and \$4,100,000 for the years ended December 31, 2014 and 2013, respectively.

### 15. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

**GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

### 16. AFFILIATION

On January 1, 2015, the System entered into an affiliation agreement with OhioHealth Corporation. The affiliation is for the purposes of collaboration for expanded development and integration of services to residents of Pickaway County. The affiliation does not lead to ownership or management of either organization by the other. The initial term of this agreement is for a five year period, with automatic two year renewal terms thereafter.



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240  
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com  
*blueandco.com*

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Berger Health System  
600 North Pickaway Street  
Circleville, Ohio 43113

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate discretely presented component units of Berger Health System (the "System"), a component unit of the City of Circleville, Ohio, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated March 6, 2015.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the System's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the System's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS (continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the System's financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bene G., LLC*

Columbus, Ohio  
March 6, 2015

# BERGER HEALTH SYSTEM

## SCHEDULE OF PRIOR AUDIT FINDING AND RESPONSES YEAR ENDED DECEMBER 31, 2013

---

### **2014-1 Capital Campaign Recording (Material Weakness)**

Condition: Capital campaign pledge receivables were overstated as of December 31, 2013 and capital campaign revenue was understated for the year ended December 31, 2013.

Recommendation: The System should implement a review process which includes review of proper cutoff of pledges received, recognition of payments, and proper aging of pledges receivable. In addition, the System should reconcile the pledge tracker maintained in the accounting department to the reports from the pledge tracking software used by the development department on a regular basis.

Current status: Management has reviewed these types of transactions and is appropriately accounting for them in accordance with the applicable accounting guidance.

### **2014-2 Accounts Payable (Significant Deficiency)**

Condition: Certain expenses incurred during 2013 were not recognized in the proper period.

Recommendation: The System should ensure that the payables and accrued expenses manual process is reviewed by an individual independent of the process.

Current Status: Management has reviewed these types of transactions and is appropriately accounting for them in accordance with the applicable accounting guidance.

### **2014-3 Accrued Liability Recognition (Significant Deficiency)**

Condition: An error in the payroll system accumulation process resulted in paid time-off balances for select individuals to be understated on the accrued benefits report used to recognize the paid time-off liability as of December 31, 2013. In addition, the general ledger balance was not adjusted to match the system accrued benefits report as of December 31, 2013.

Recommendation: The System should scrutinize reports obtained from the payroll system to ensure that the balances reflected are accurate and appropriately reflected in the financial records.

Current Status: Management has reviewed these types of transactions and is appropriately accounting for them in accordance with the applicable accounting guidance.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

**BERGER HEALTH SYSTEM**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 19, 2015**