

BERGER HEALTH SYSTEM

FINANCIAL STATEMENTS

March 31, 2019

CPAs / ADVISORS



OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Board of Trustees
Berger Health Systems
600 North Pickaway Street
Circleville, OH 43113

We have reviewed the *Independent Auditor's Report* of Berger Health Systems, Pickaway County, prepared by Blue & Co., LLC, for the audit period January 1, 2019 through March 31, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 4, 2019

This page intentionally left blank.

BERGER HEALTH SYSTEM

TABLE OF CONTENTS
MARCH 31, 2019

	Page
Report of Independent Auditors	1
Financial Statements	
Statement of Net Position	3
Statement of Operations and Changes in Net Position	5
Statement of Cash Flows	6
Component Units - Combining Statement of Net Position.....	8
Component Units - Combining Statement of Operations and Changes in Net Position	9
Notes to Financial Statements	10
Required Supplementary Information	
Required Supplementary Information on GASB 68 Pension Liabilities (unaudited)	36
Required Supplementary Information on GASB 75 Other Postemployment Benefit Liabilities (unaudited).....	37
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	40

This page intentionally left blank.



Blue & Co., LLC / 9200 Worthington Road Suite 200 / Westerville, OH 43082
main 614.885.2583 website blueandco.com

REPORT OF INDEPENDENT AUDITORS

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") as of and for the three month period ended March 31, 2019, 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 audits 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.

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 the System as of March 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Supplementary Information on GASB 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 36 and 37, respectively, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2019 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.



Westerville, Ohio

October 8, 2019

BERGER HEALTH SYSTEM

STATEMENT OF NET POSITION
MARCH 31, 2019

ASSETS AND DEFERRALS

	March 31, 2019	
	Hospital	Component Units
Current assets		
Cash and cash equivalents	\$ 4,627,833	\$ 601,560
Short-term investments	9,480,462	-
Net patient accounts receivable	6,896,248	489,255
Estimated third-party payor settlements	610,812	-
Prepaid expenses and other	1,716,870	462,716
Inventory	1,347,834	-
Current portion of pledges receivable	-	104,202
Total current assets	24,680,059	1,657,733
Assets whose use is limited		
Restricted cash and investments	-	1,258,618
Long-term investments	13,995,603	-
Property and equipment, net	32,615,508	3,635,739
Long-term pledges receivable, net	-	135,939
Net pension asset	268,558	-
Total noncurrent assets	46,879,669	5,030,296
Deferred outflows of resources		
Pension	10,976,644	-
Other post-employment benefits	1,726,991	-
Total deferred outflows of resources	12,703,635	-
Total assets and deferrals	\$ 84,263,363	\$ 6,688,029

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENT OF NET POSITION
MARCH 31, 2019

LIABILITIES, DEFERRALS AND NET POSITION

	March 31, 2019	
	Hospital	Component Units
Current liabilities		
Current portion of long-term debt	\$ 19,440,000	\$ -
Accounts payable	4,795,246	473,170
Cash overdraft	-	361,436
Accrued compensation and related accruals	3,317,552	873,676
Accrued interest and other	43,118	-
Total current liabilities	27,595,916	1,708,282
Other liabilities		
Net pension liability	43,097,440	-
Net other post-employment benefit liability	20,953,442	-
Total other liabilities	64,050,882	-
Deferred inflows of resources		
Pension	2,824,557	-
Other post-employment benefits	419,886	-
Total deferred inflows of resources	3,244,443	-
Total liabilities and deferrals	94,891,241	1,708,282
Net Position (Deficit in Net Position)		
Net invested in capital assets	13,175,508	3,635,739
Restricted	-	1,498,759
Unrestricted	(23,803,386)	(154,751)
Total net position (deficit in net position)	(10,627,878)	4,979,747
Total liabilities, deferrals and net position	\$ 84,263,363	\$ 6,688,029

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION PERIOD ENDED MARCH 31, 2019

	March 31, 2019	
	Hospital	Component Units
Operating revenues		
Net patient service revenue	\$ 16,718,917	\$ 1,772,888
Other operating revenue	431,992	3,641,761
Total operating revenues	17,150,909	5,414,649
Operating expenses		
Salaries and wages	5,676,873	2,336,260
Employee benefits and payroll taxes	14,160,579	573,749
Operating supplies and other	4,680,722	603,593
Professional services and consultant fees	1,948,532	-
Purchased services	2,281,800	432,627
Insurance	848,173	363,848
Depreciation and amortization	1,707,596	9,211
State hospital assessment	288,685	-
Total operating expenses	31,592,960	4,319,288
Operating income (loss)	(14,442,051)	1,095,361
Other income (expenses)		
Interest income	214,437	-
Contributions	(2,571,880)	-
Interest expense	(129,910)	-
Program support grants	-	(38,851)
Other expense	(189,090)	(779,506)
Total other expenses	(2,676,443)	(818,357)
Contribution (to) from component units	(1,129,398)	1,129,398
Excess of revenue over (under) expenses	(18,247,892)	1,406,402
Contributions of restricted assets	-	(5,298)
Change in net position	(18,247,892)	1,401,104
Net position - beginning of year	7,620,014	3,578,643
Net position (deficit in net position) - end of year	\$ (10,627,878)	\$ 4,979,747

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENT OF CASH FLOWS PERIOD ENDED MARCH 31, 2019

	March 31, 2019	
	Hospital	Component Units
Operating activities		
Cash received from patients and third-party payors	\$ 18,410,883	\$ 1,700,100
Cash payments to suppliers for services and goods	(6,888,280)	(855,738)
Cash payments to employees for salaries, wages and benefits	(7,035,925)	(2,376,685)
Other operating revenue	431,992	770,351
	4,918,670	(761,972)
Investing activities		
Proceeds from investments	1,852,153	(39,083)
Cash paid for investments	(1,788,135)	(1,057)
Interest income and other	25,347	(818,357)
	89,365	(858,497)
Cash flows from noncapital financing activities		
Contributions to (from) component units	(1,129,398)	1,129,398
	(1,129,398)	1,129,398
Capital and related financing activities		
Acquisition and construction of capital assets	(1,097,977)	(34,950)
Grants and contributions	(2,571,880)	(5,298)
Interest paid on long-term debt	(128,542)	-
Principal payments on long-term debt	(255,000)	-
	(4,053,399)	(40,248)
Change in cash and cash equivalents	(174,762)	(531,319)
Cash and cash equivalents - beginning of year	4,802,595	1,748,574
Cash and cash equivalents- end of year	\$ 4,627,833	\$ 1,217,255
Balance sheet classification of cash		
Cash and cash equivalents	\$ 4,627,833	\$ 601,560
Restricted cash and cash equivalents	-	615,695
	\$ 4,627,833	\$ 1,217,255

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENT OF CASH FLOWS (CONTINUED) PERIOD ENDED MARCH 31, 2019

A reconciliation of operating income (loss) to net cash from operating activities follows:

	2019	
	Hospital	Component Units
Operating income (loss)	\$ (14,442,051)	\$ 1,095,361
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	1,707,596	9,211
Provision for bad debt	2,115,028	25,068
Non-cash pension cost	10,626,820	-
Non-cash OPEB cost	1,791,390	-
Changes in assets and liabilities:		
Patient accounts receivable	(1,188,931)	(97,856)
Other assets	(267,165)	393,310
Non-cash donation (contribution) of land	2,583,236	(2,914,033)
Accounts payable and accrued liabilities	1,226,878	726,967
Estimated third party settlements	765,869	-
Net cash flows from operating activities	\$ 4,918,670	\$ (761,972)

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION MARCH 31, 2019

	Pickaway			Component Unit Totals
	Berger Health Partners	Professional Services	Berger Health Foundation	
Current assets				
Cash and cash equivalents	\$ -	\$ 1,353	\$ 600,207	\$ 601,560
Net patient accounts receivable	489,255	-	-	489,255
Prepaid expenses and other	362,220	-	100,496	462,716
Current portion of pledges receivable	-	-	104,202	104,202
Total current assets	<u>851,475</u>	<u>1,353</u>	<u>804,905</u>	<u>1,657,733</u>
Assets whose use is limited				
Restricted cash and investments	-	-	1,258,618	1,258,618
Property and equipment, net	335,739	-	3,300,000	3,635,739
Long-term pledges receivable, net	<u>-</u>	<u>-</u>	<u>135,939</u>	<u>135,939</u>
Total assets	<u>\$ 1,187,214</u>	<u>\$ 1,353</u>	<u>\$ 5,499,462</u>	<u>\$ 6,688,029</u>
Current liabilities				
Accounts payable	\$ 355,793	\$ -	\$ 117,377	\$ 473,170
Cash overdraft	361,436	-	-	361,436
Accrued compensation and related accruals	854,031	-	19,645	873,676
Total current liabilities	<u>1,571,260</u>	<u>-</u>	<u>137,022</u>	<u>1,708,282</u>
Total liabilities	1,571,260	-	137,022	1,708,282
Net position				
Net invested in capital assets	335,739	-	3,300,000	3,635,739
Restricted	-	-	1,498,759	1,498,759
Unrestricted	<u>(719,785)</u>	<u>1,353</u>	<u>563,681</u>	<u>(154,751)</u>
Total net position (deficit in net position)	<u>(384,046)</u>	<u>1,353</u>	<u>5,362,440</u>	<u>4,979,747</u>
Total liabilities and net position	<u>\$ 1,187,214</u>	<u>\$ 1,353</u>	<u>\$ 5,499,462</u>	<u>\$ 6,688,029</u>

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION MARCH 31, 2019

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating revenues				
Net patient service revenue	\$ 1,772,888	\$ -	\$ -	\$ 1,772,888
Other operating revenue	301,518	-	3,340,243	3,641,761
Total operating revenues	2,074,406	-	3,340,243	5,414,649
Operating expenses				
Salaries and wages	2,292,279	-	43,981	2,336,260
Employee benefits and payroll taxes	565,516	-	8,233	573,749
Operating supplies and other	518,884	-	84,709	603,593
Purchased services	421,422	-	11,205	432,627
Insurance	363,848	-	-	363,848
Depreciation and amortization	9,211	-	-	9,211
Total operating expenses	4,171,160	-	148,128	4,319,288
Operating income (loss)	(2,096,754)	-	3,192,115	1,095,361
Other expenses				
Program support grants	-	-	(38,851)	(38,851)
Other	-	-	(779,506)	(779,506)
Total other expenses	-	-	(818,357)	(818,357)
Contribution from Hospital	1,065,006	-	64,392	1,129,398
Excess of revenue over (under) expenses	(1,031,748)	-	2,438,150	1,406,402
Contributions of restricted assets	-	-	(5,298)	(5,298)
Change in net position	(1,031,748)	-	2,432,852	1,401,104
Net position - beginning of year	647,702	1,353	2,929,588	3,578,643
Net position - end of year	\$ (384,046)	\$ 1,353	\$ 5,362,440	\$ 4,979,747

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Berger Health System (the "System"), 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 and a second ex-officio community leader was added in 2016. 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. Berger Hospital (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. On November 7, 2017, the residents of Circleville voted to approve the transition from a publically owned Hospital to a not for profit organization. This transition is part of the negotiations with the long-term lease agreement with the OhioHealth Corporation as discussed in Note 14. Effective April 1, 2019, ownership of the System was transferred to OhioHealth, and the board of governors was dissolved.

Discretely Presented Component Units

Berger Health Partners (BHP) provides healthcare and physician services in the geographic area served by the Hospital. BHP, 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. BHP 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. Pickaway Professional Services was dissolved on July 17, 2018.

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 were organized as a limited liability company whose sole member is Berger Health Foundation on October 31, 2006. Ventures is combined with the Foundation's financial statements.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

The accompanying basic financial statements include the accounts of the Hospital, Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, and Berger Health Foundation (collectively, the "System"). Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, 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, Berger Health Partners, Pickaway Professional Services, Berger Health Foundation Ventures, 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 propriety fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include assets designated for specific purposes as instructed by the donor. Funds held for donor-specified purposes classified as restricted cash and cash equivalents totaled approximately \$616,000 at March 31, 2019.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

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 net realizable value, 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).

Property and Equipment

Property and equipment are stated at cost or, if donated, at acquisition 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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

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.

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.

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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

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.

Contributions

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

Operating 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 \$31,593,000 during 2019), an estimated \$98,000 arose from providing services to charity patients during 2019. 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 recognized through this program totaled approximately \$247,500 for the period ending March 31, 2019, and are reported as net patient service revenue in the financial statements.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

Pension and Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pension and OPEB, and pension and OPEB expense, information about the net position of the Ohio Public Employees Retirement System ("OPERS") and addition to/deductions from the OPERS's net position have been determined on the same basis as they are reported by the OPERS.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 8, 2019, 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

MARCH 31, 2019

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 MARCH 31, 2019

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 period end, the System had approximately \$6,761,000 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 Federal Deposit Insurance Corporation (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.

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.

The System had the following cash and investments with the following maturities:

Hospital		Maturities		
March 31, 2019	Carrying Amount	< 1 year	> 1 year	
U.S. treasury notes	\$ 10,828,261	\$ 3,877,104	\$ 6,951,157	
U.S. agency bonds	12,570,442	5,525,996	7,044,446	
Total	<u>\$ 23,398,703</u>	<u>\$ 9,403,100</u>	<u>\$ 13,995,603</u>	

Component Units		Maturities		
March 31, 2019	Carrying Amount	< 1 year	> 1 year	
Certificates of deposit	\$ 173,022	\$ 173,022	\$ -	
Total	<u>\$ 173,022</u>	<u>\$ 173,022</u>	<u>\$ -</u>	

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

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

	March 31, 2019	
	Fair Value	Amortized Historical Cost
Hospital		
Demand deposits (including restricted)	\$ 4,627,833	\$ 4,627,833
Money market	77,362	77,362
U.S. treasury notes	10,828,261	10,810,075
U.S. agency bonds	12,570,442	12,472,965
	<u>\$ 28,103,898</u>	<u>\$ 27,988,235</u>
	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-		
General funds:		
Cash	\$ 4,627,833	\$ 4,627,833
Investments	23,476,065	23,360,402
	<u>\$ 28,103,898</u>	<u>\$ 27,988,235</u>
	March 31, 2019	
	Fair Value	Amortized Historical Cost
Component Units		
Demand deposits	\$ 1,044,233	\$ 1,044,233
Certificates of deposit	173,022	173,022
Mutual funds	642,923	546,781
	<u>\$ 1,860,178</u>	<u>\$ 1,764,036</u>
	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-		
General funds:		
Cash	\$ 601,560	\$ 601,560
Assets whose use is limited	1,258,618	1,162,476
	<u>\$ 1,860,178</u>	<u>\$ 1,764,036</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

3. FAIR VALUE MEASUREMENTS

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 March 31, 2019.

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.

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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

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 2019.

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 are as follows:

Hospital	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	\$ -	\$ 77,362	\$ -	\$ 77,362
U.S. treasury notes	-	10,828,261	-	10,828,261
U.S agency bonds:				
Federal home loans	-	2,190,948	-	2,190,948
Federal National Mortgage Association	-	5,548,415	-	5,548,415
Federal Home Loan Mortgage Corporation	-	4,249,623	-	4,249,623
Federal Farm Credit Banks	-	581,456	-	581,456
	-	23,476,065	-	23,476,065
Cash	-	-	-	4,627,833
Total assets	<u>\$ -</u>	<u>\$ 23,476,065</u>	<u>\$ -</u>	<u>\$ 28,103,898</u>
Component Units	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Large growth	\$ 76,396	\$ -	\$ -	\$ 76,396
Moderate allocation	251,619	-	-	251,619
World allocation	235,084	-	-	235,084
Short-term bond	79,824	-	-	79,824
	642,923	-	-	642,923
Cash	-	-	-	1,044,233
Certificate of deposit	-	-	-	173,022
Total assets	<u>\$ 642,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,860,178</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

Hospital	March 31, 2019
Patient accounts receivable	\$ 22,249,301
Less allowance for uncollectible accounts	(5,767,800)
Less allowance for contractual adjustments	(9,585,253)
Net patient accounts receivable	<u>\$ 6,896,248</u>

Component Units	March 31, 2019
Patient accounts receivable	\$ 889,729
Less allowance for uncollectible accounts	(91,928)
Less allowance for contractual adjustments	(308,546)
Net patient accounts receivable	<u>\$ 489,255</u>

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:

	March 31, 2019	
	Accounts Receivable	Gross Revenue
Medicare	15%	24%
Medicare managed	15%	25%
Medicaid	1%	1%
Medicaid managed	15%	20%
Commercial	26%	26%
Self-pay	28%	4%
	<u>100%</u>	<u>100%</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

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. In May 2017, the Foundation began a capital campaign to help fund the building of a new Health and Wellness Center for the community. Pledges receivable associated with the campaigns as of March 31, 2019 are as follows:

	March 31, 2019
Receivable in less than one year	\$ 127,263
Receivable in one to five years	182,531
Total unconditional promises to give	<u>309,794</u>
Less discounts to net present value	(32,495)
Less allowance for uncollectible promises	<u>(37,158)</u>
Net unconditional promises to give	<u>\$ 240,141</u>

The rate used to discount unconditional promises to net present value was 6% as of March 31, 2019. The rate used to calculate the allowance for uncollectible amounts was 13.4% as of March 2019.

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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

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 2015 for Medicare. There are no open cost reports 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.

7. PROPERTY AND EQUIPMENT

Property and equipment for the Hospital for the period ended March 31, 2019 was as follows:

	December 31, 2018	Additions	Transfers	Retirements	March 31, 2019
Capital assets not being depreciated:					
Land	\$ 3,329,666	\$ -	\$ -	\$ (2,583,236)	\$ 746,430
Construction in progress	197,778	1,094,765	(147,562)	-	1,144,981
Subtotal	<u>3,527,444</u>	<u>1,094,765</u>	<u>(147,562)</u>	<u>(2,583,236)</u>	<u>1,891,411</u>
Capital assets being depreciated:					
Land improvements	1,727,417	-	-	-	1,727,417
Buildings	34,610,254	-	-	-	34,610,254
Building improvements	34,510,930	-	(11,343)	-	34,499,587
Equipment	46,811,155	3,212	158,905	-	46,973,272
Subtotal	<u>117,659,756</u>	<u>3,212</u>	<u>147,562</u>	<u>-</u>	<u>117,810,530</u>
Total capital assets	<u>121,187,200</u>	<u>1,097,977</u>	<u>-</u>	<u>(2,583,236)</u>	<u>119,701,941</u>
Accumulated depreciation:					
Land improvements	1,649,762	17,609	-	-	1,667,371
Buildings	25,195,617	756,506	-	-	25,952,123
Building improvements	19,536,333	441,743	-	-	19,978,076
Equipment	38,997,125	491,738	-	-	39,488,863
Subtotal	<u>85,378,837</u>	<u>1,707,596</u>	<u>-</u>	<u>-</u>	<u>87,086,433</u>
Net capital assets	<u>\$ 35,808,363</u>	<u>\$ (609,619)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,615,508</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

Capital asset activity for the component units for the period ended March 31, 2019 included approximately \$35,000 of additions and \$9,000 of depreciation.

Depreciation expense on capital assets for the Hospital and component units combined for the period ended March 31, 2019 totaled approximately \$1,708,000.

Certain amounts included in construction in progress relate to the Hospital's computed tomography equipment for which the estimated remaining costs for completion approximate \$63,000 as of March 31, 2019.

8. ACCRUED COMPENSATION AND RELATED ACCRUALS

Hospital	March 31, 2019
Payroll and related items	\$ 2,572,650
Self-insured benefits	358,386
Health insurance claims	386,516
	\$ 3,317,552
	\$ 3,317,552
Component units	2019
Payroll and related items	\$ 777,898
Health insurance claims/Self-insured benefits	95,778
	\$ 873,676
	\$ 873,676

9. LONG-TERM DEBT

Long-term debt activity for the period ended March 31, 2019 for both the Hospital and component units was as follows:

	December 31, 2018	Current Year Additions	Current Year Reductions	March 31, 2019	Amounts Due Within One Year
City of Circleville, Ohio Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2014 (repaid in April 2019)	\$ 19,695,000	\$ -	\$ (255,000)	\$ 19,440,000	\$ 19,440,000
Total long-term debt and other liabilities	\$ 19,695,000	\$ -	\$ (255,000)	\$ 19,440,000	\$ 19,440,000
	\$ 19,695,000	\$ -	\$ (255,000)	\$ 19,440,000	\$ 19,440,000

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

On May 1, 2014, the System entered into a financing agreement with the City of Circleville (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 \$255,000 in March 2019 at a fixed rate of 2.67 percent. The remaining balance of \$19,400,000 as of March 31, 2019 was repaid on April 2, 2019.

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 March 31, 2019:

Period Ending March 31	Minimum Annual Lease Payments
2019	\$ 680,399
2020	764,829
2021	769,595
2022	708,486
2023	510,095
Thereafter	1,295,740
Total	<u>\$ 4,729,144</u>

Total rent expense for the period ended March 31, 2019 was approximately \$402,000 for the Hospital. Total rent expense for the period ended March 31, 2019 was approximately \$201,000 for the component units. The majority of this expense is intercompany and the corresponding revenue is recorded in the Hospital.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

10. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

Hospital	March 31, 2019
Patient revenue:	
Inpatient services	\$ 11,480,158
Outpatient services	39,952,047
Total patient revenue	<u>51,432,205</u>
Revenue deductions:	
Provision for contractual allowances	32,438,985
Provision for bad debt allowances	2,115,028
Charity care	159,275
Total revenue deductions	<u>34,713,288</u>
Total net patient service revenue	<u>\$ 16,718,917</u>
Component units	March 31, 2019
Patient revenue:	
Outpatient services	\$ 3,078,711
Total patient revenue	<u>3,078,711</u>
Revenue deductions:	
Provision for contractual allowances	1,280,755
Provision for bad debt allowances	25,068
Total revenue deductions	<u>1,305,823</u>
Total net patient service revenue	<u>\$ 1,772,888</u>

11. RETIREMENT PLANS

The Hospital contributed to OPERS, which 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 health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 No. 75. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report (“CAFR”) for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code (ORC).

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

In accordance with GASB Statement Nos. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities of the plans. Although changes in the net pension and OPEB liability generally are recognized as expense in the current period, certain items are deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 10 years).

The collective net pension asset and liability of the retirement systems and the System’s proportionate share of the net pension asset and liability as of March 31 are as follows:

	2019
Net pension liability - all employers	<u>\$ 27,387,972,593</u>
Proportion of the net pension liability - System	0.157359%
	<u>\$ 43,097,440</u>

	2019
Net pension asset - all employers	<u>\$ 114,100,958</u>
Proportion of the net pension asset - System	0.235369%
	<u>\$ 268,558</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

The collective net OPEB liability of the retirement systems and the System's proportionate share of the net OPEB liability as of March 31 are as follows:

	2019
Net OPEB liability - all employers	\$ 13,037,639,421
Proportion of the net OPEB liability - System	0.160715%
	<u>\$ 20,953,442</u>

At March 31, 2019, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources

Difference between expected and actual experience	\$ 19,341
Net difference between projected and actual earnings on pension plan assets	5,907,863
Assumption changes	3,812,079
Change in proportionate share	362,478
Difference between Berger contributions and proportionate share of contributions	54,105
Employer contributions subsequent to the measurement date	820,778
Total	<u>\$ 10,976,644</u>

Deferred inflows of resources

Difference between expected and actual experience	\$ 673,877
Change in proportionate share	491,915
Difference between Berger contributions and proportionate share of contributions	1,658,765
Total	<u>\$ 2,824,557</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

At March 31, 2019, the System reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

Deferred outflows of resources

Difference between expected and actual experience	\$	7,095
Net difference between projected and actual earnings on OPEB plan assets		960,592
Assumption changes		675,564
Difference between Berger contributions and proportionate share of contributions		83,740
Total	\$	<u>1,726,991</u>

Deferred inflows of resources

Difference between expected and actual experience	\$	56,853
Change in proportionate share		363,033
Total	\$	<u>419,886</u>

Statutory Authority

ORC Chapter 145

Benefit Formula

Pension: Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

OPEB: The ORC permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the connector, and may be eligible for monthly allowances deposited to a health reimbursement account to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The OPERS determines the amount, if any, of the associated health care costs that will be absorbed by the OPERS and attempts to control costs by using managed care, case management, and other programs.

Contribution Rates

The ORC provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0% of earnable salary and public safety and law enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0% during calendar year 2018. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2018 was 4%.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment is provided on the member's base pension benefit at the date of retirement and is not compounded. For those members retiring under the Combined Plan will receive a 3% cost-of-living-adjustment on the defined benefit portion of their pension benefit. Current law provides for a 3% cost-of-living adjustment for benefit recipients retiring prior to January 7, 2013. For those benefit recipients retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the cost-of-living adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

Measurement Date

December 31, 2018 for Pension

December 31, 2017 for OPEB

Actuarial Assumptions

Valuation Date: December 31, 2018 for pension and December 31, 2017 for OPEB

Actuarial Cost Method: Individual entry age

Investment Rate of Return: 7.2% for pension and 6.0% for OPEB

Inflation: 3.25%

Projected Salary Increases: 3.25% - 10.75%

Cost-of-Living Adjustments: 3.00% Simple for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple.

Health Care Cost Trends: 10% initial, 3.25% ultimate

Mortality Rates

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant Mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all the above described tables.

Date of Last Experience Study

Five year period ended December 31, 2015.

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23.00%	2.79%
Domestic Equity	19.00%	6.21%
Real Estate	10.00%	4.90%
Private Equity	10.00%	10.81%
International Equity	20.00%	7.83%
Other Investments	18.00%	5.50%
Total	100.00%	

* Returns presented as arithmetic means

The following table displays the OPERS Board-approved asset allocation policy for health care assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	34.00%	2.42%
Domestic Equity	21.00%	6.21%
Real Estate	6.00%	5.98%
International Equity	22.00%	7.83%
Other Investments	17.00%	5.57%
Total	100.00%	

* Returns presented as arithmetic means

Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2019

investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB: A single discount rate of 3.96% was used to measure the total OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contribution for use with the long-term expected rate were not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.0% and a municipal bond rate of 3.71%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contributions rate. Based on those assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Health Care Cost Trend Rate

A health care cost trend rate of 10% was used to measure the total OPEB liability on the measurement date of December 31, 2018. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increase in the current cost of health care; the trend starting in 2019 is 10%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near wage inflation (3.25%).

Benefit Term Changes Since the Prior Measurement Date

For pension benefit recipients retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the cost-of-living-adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.20%)	Current Rate (7.20%)	1% Increase (8.20%)
<u>\$ 63,667,451</u>	<u>\$ 43,097,440</u>	<u>\$ 26,003,575</u>

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.20%)	Current Rate (7.20%)	1% Increase (8.20%)
<u>\$ 89,440</u>	<u>\$ 268,558</u>	<u>\$ 400,127</u>

Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.96%)	Current Rate (3.96%)	1% Increase (4.96%)
<u>\$ 26,807,262</u>	<u>\$ 20,953,442</u>	<u>\$ 16,298,108</u>

Sensitivity of Net OPEB Liability to Changes in Health Care Cost Trend Rate

1% Decrease (9%)	Current Rate (10%)	1% Increase (11%)
<u>\$ 20,140,804</u>	<u>\$ 20,953,442</u>	<u>\$ 21,889,383</u>

Total pension expense for the period ended March 31, 2019 was \$11,447,597. Total OPEB expense for the period ended March 31, 2019 was \$1,791,390.

12. 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.

BERGER HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2019

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.

13. 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 \$1,042,000 for the period ended March 31, 2019.

14. AFFILIATION

Effective March 7, 2019, the System, the City of Circleville and The Board of County Commissioners of Pickaway County have reached an agreement with the OhioHealth Corporation to enter into a long-term lease agreement. On April 1, 2019, under the terms of the lease agreement, OhioHealth Corporation assumed operations and management of the System. OhioHealth Corporation has been assigned the right, title and interest in and to the assets and intellectual property in connection with the operations of the System. OhioHealth Corporation will lease the real property and improvements associated with the facilities from the City of Circleville. The Foundation maintains certain restricted funds that are exclusively for Berger Hospital. Per the agreement with OhioHealth, the Foundation was to pay OhioHealth \$340,000 so the restricted funds could be used by the OhioHealth Foundation. The System paid \$340,000 on behalf of the Foundation, which is recorded as a receivable in prepaid expenses and other on the Statement of Net Position. The System donated an undeveloped parcel of land to the Foundation at a historic value of \$2,583,236. The Foundation recognized a donation of land at the appraised value of \$3,300,000. Additionally, the Foundation donated a ground lease agreement of \$385,967 to OhioHealth, which was assumed by Physicians Realty Trust as of March 31, 2019.

BERGER HEALTH SYSTEM

SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED) MACRH 31, 2019

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	March 31,		December 31,		
	2019	2018	2017	2016	2015
System proportion of the collective net pension liability	0.15736%	0.16156%	0.15481%	0.15184%	0.15391%
System proportionate share of the net pension liability	\$ 43,097,000	\$ 25,345,000	\$ 35,155,000	\$ 26,300,000	\$ 18,563,000
System proportion of the collective net pension asset	0.23537%	0.22335%	0.23177%	0.23673%	0.24163%
System proportionate share of the net pension asset	\$ 269,000	\$ 312,000	\$ 130,000	\$ 116,000	\$ 93,000
System covered payroll	\$ 21,606,000	\$ 23,472,000	\$ 20,374,000	\$ 21,031,000	\$ 21,063,000
System proportionate share of the net pension liability as a percentage of its covered payroll	198.2%	106.7%	171.9%	124.5%	87.7%
Plan fiduciary net position as a percentage of the total pension liability	74.9%	84.9%	77.4%	81.2%	86.5%
Schedule of System Contributions					
Contractually required pension contribution	\$ 821,000	\$ 3,025,000	\$ 3,051,000	\$ 2,445,000	\$ 2,524,000
Contributions in relation to the contractually required contribution	\$ 821,000	\$ 3,025,000	\$ 3,051,000	\$ 2,445,000	\$ 2,524,000
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$ 5,863,000	\$ 21,606,000	\$ 23,472,000	\$ 20,374,000	\$ 21,031,000
Contributions as a percentage of covered payroll	14.0%	14.0%	13.0%	12.0%	12.0%

Note: This schedule is intended to present ten years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.

BERGER HEALTH SYSTEM

NOTES TO SUPPLEMENTARY SCHEDULES MARCH 31, 2019

Schedule of Proportionate Share of the Net OPEB Liability (rounded to the nearest 1,000)	March 31,		December 31,		
	2019	2018	2017	2016	2015
System proportion of the collective net OPEB liability	0.16072%	0.16570%	-	-	-
System proportionate share of the net OPEB liability	\$ 20,953,442	\$ 17,993,799	-	-	-
System covered payroll	\$ 21,606,000	\$ 23,472,000	\$ 20,374,000	\$ 21,031,000	\$ 21,063,000
System proportionate share of the net OPEB liability as a percentage of its covered payroll	97.0%	76.7%	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	46.3%	54.1%	-	-	-
Schedule of System Contributions					
Contractually required OPEB contribution	\$ -	\$ -	\$ 235,000	\$ 407,000	\$ 421,000
Contributions in relation to the contractually required contribution	\$ -	\$ -	\$ 235,000	\$ 407,000	\$ 421,000
Contribution deficiency (excess)	\$ -	\$ -	-	-	-
Covered payroll	\$ -	\$ -	\$ 23,472,000	\$ 20,374,000	\$ 21,031,000
Contributions as a percentage of covered payroll	0.0%	0.0%	1.0%	2.0%	2.0%

Note: This schedule is intended to present ten years of the proportionate share of the net OPEB liability. Currently, only those years with information available are presented.

BERGER HEALTH SYSTEM

NOTES TO SUPPLEMENTARY SCHEDULES MARCH 31, 2019

1. Defined Benefit Pension Plans

Changes of Benefit Terms

Amounts reported in 2015 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change, however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2 percent of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3 percent applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3 percent.

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2018, used for the System's 2019 fiscal year. Amounts reported in the System's 2019 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2018 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return decreased from 7.5 percent to 7.2 percent.
- Projected salary increases range changed from 4.25 percent – 10.05 percent to 3.25 percent – 10.75 percent for the Traditional Pension Plan and changed from 4.25 percent – 8.05 percent to 3.25 percent – 8.25 percent.
- Mortality assumptions increased to reflect longer life expectancies.

BERGER HEALTH SYSTEM

NOTES TO SUPPLEMENTARY SCHEDULES
MARCH 31, 2019

2. Defined Benefit Postemployment Benefits other than Pensions

Changes of Assumptions

Amounts reported in 2018 for OPERS reflect the following changes in assumptions based on an experience study for the five year period ending December 31, 2015:

- Wage inflation assumption decreased from 3.75 percent to 3.25 percent
- Health care cost trend rate increased to 7.5 percent, before levelling off to 3.25 percent in 2028 to 10.0 percent, before levelling off to 3.25 percent in 2029.
- Mortality assumptions increased to reflect longer life expectancies.

This page intentionally left blank.



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") as of and for the period ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated October 8, 2019.

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)

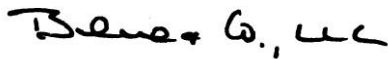
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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



Westerville, Ohio
October 8, 2019

OHIO AUDITOR OF STATE KEITH FABER



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
NOVEMBER 19, 2019**