BERGER HEALTH SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017

CPAs / ADVISORS

blue

OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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Board of Trustees
Berger Health System
600 North Pickaway Street
Circleville, Ohio 43113

We have reviewed the *Report of Independent Auditors* of the Berger Health System, Pickaway County, prepared by Blue & Co., LLC, for the audit period January 1, 2018 through December 31, 2018. 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.

Keith Faber
Auditor of State
Columbus, Ohio

June 30, 2019

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BERGER HEALTH SYSTEM

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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") as of and for the years ended December 31, 2018 and 2017, 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 audits. 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 December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* during the year ended December 31, 2018. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages i through ix and the Supplementary Information on GASB 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 42 and 43, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 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.

Plante & Moran, PLLC

Westerville, Ohio
April 26, 2019

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, 2018. 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 Berger Health Partners (BHP), 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 ("GASB").

The System implemented GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pension*. The adoption of the new standard – which requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement's plans' unfunded other postemployment benefit liabilities – resulted in an $18 million net other postemployment benefit (OPEB) liability and a $16.5 million cumulative effect on net position.

Financial Highlights

Operating expenses of $94.3 million exceeded operating revenues of $86.5 million, producing an operating loss of $7.8 million.

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, notes to financial statements and the required supplementary information on pension and OPEB liabilities.

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?"

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, 2018, 2017 and 2016:

	December 31		
	2018	2017 *	2016 *
Assets and deferrals			
Current assets	$ 28,050,059	$ 30,668,348	$ 40,193,268
Noncurrent assets	16,465,016	19,377,413	14,057,691
Capital assets	36,504,330	36,347,819	34,408,836
Deferred outflows of resources	8,617,610	15,035,937	10,240,653
Total assets and deferrals	$ 89,637,015	$ 101,429,517	$ 98,900,448
Liabilities and deferrals			
Current liabilities	$ 8,933,985	$ 8,293,026	$ 8,875,860
Long-term liabilities	62,008,647	54,850,173	47,171,822
Deferred inflows of resources	7,495,726	1,050,695	822,473
Total liabilities and deferrals	$ 78,438,358	$ 64,193,894	$ 56,870,155
Net position			
Net invested in capital assets	$ 16,809,330	$ 15,632,819	$ 12,713,836
Restricted	1,606,564	2,542,260	3,249,206
Unrestricted	(7,217,237)	19,060,544	26,067,251
Total net position	$ 11,198,657	$ 37,235,623	$ 42,030,293

* 2017 and 2016 amounts do not reflect the adoption of GASB Statement No. 75

Total assets and deferrals decreased $11.8 million between 2018 and 2017, driven by a decrease in long-term investments and deferred outflows of resources due to pension and other postemployment benefit (OPEB) liabilities related items. Total liabilities and deferrals increased $14.2 million between 2018 and 2017. In 2018, the System implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The increase in liabilities and deferred inflows of resources during 2018 is primarily a result of this standard.

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, 2018, 2017 and 2016:

	Year Ended December 31		
	2018	2017 *	2016 *
Operating revenues			
Net patient service revenue	$ 82,472,887	$ 84,957,056	$ 83,583,242
Other operating revenue	3,990,608	4,022,350	3,217,525
Total operating revenues	86,463,495	88,979,406	86,800,767
Operating expenses			
Salaries and wages	33,386,626	32,953,956	31,466,631
Employee benefits and payroll taxes	6,627,456	5,149,851	6,388,572
Pension expense	6,034,856	7,557,904	3,836,089
OPEB expense	1,353,403	-	-
Supplies and other	21,873,971	21,464,580	21,311,564
Professional services and consultant fees	6,198,518	4,945,516	4,793,635
Purchased services	12,164,503	12,985,001	10,774,917
Insurance	604,310	704,802	665,794
Depreciation and amortization	4,906,051	4,789,977	4,596,474
State hospital assessment	1,132,325	1,138,867	1,130,057
Total operating expenses	94,282,019	91,690,454	84,963,733
Operating Income (loss)	(7,818,524)	(2,711,048)	1,837,034
Other income (expense)			
Interest income	404,805	137,262	151,236
Gain on sale of property	-	7,155	-
Contributions	84,581	268,987	69,275
Interest expense	(538,521)	(569,346)	(593,118)
Program support grants	(942,592)	(1,207,451)	(1,113,738)
Other expense	(859,617)	(1,095,662)	(537,589)
Total other income (expense)	(1,851,344)	(2,459,055)	(2,023,934)
Excess of revenue over (under) expenses	(9,669,868)	(5,170,103)	(186,900)
Contributions of restricted assets	134,446	375,433	15,457
Change in net position	(9,535,422)	(4,794,670)	(171,443)
Net position, beginning of year	37,235,623	42,030,293	42,201,736
Cumulative effect of accounting change	(16,501,544)	-	-
Net position, end of year	$ 11,198,657	$ 37,235,623	$ 42,030,293

* 2017 and 2016 amounts do not reflect the adoption of GASB Statement No. 75

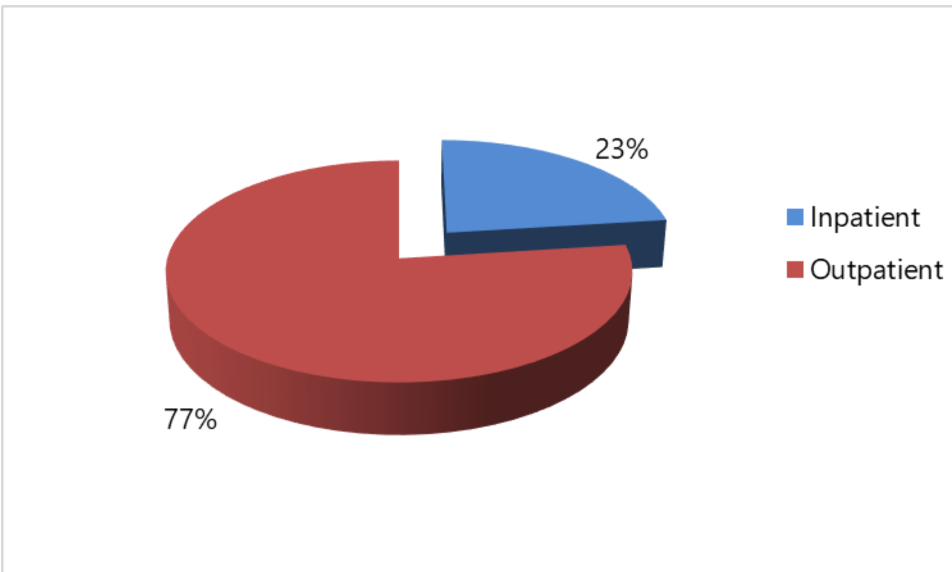
Operating Revenues

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 $2.5 million from $85.0 million in 2017 to $82.5 million in 2018. The decrease is due to a decrease in outpatient visits in 2018 compared to 2017.

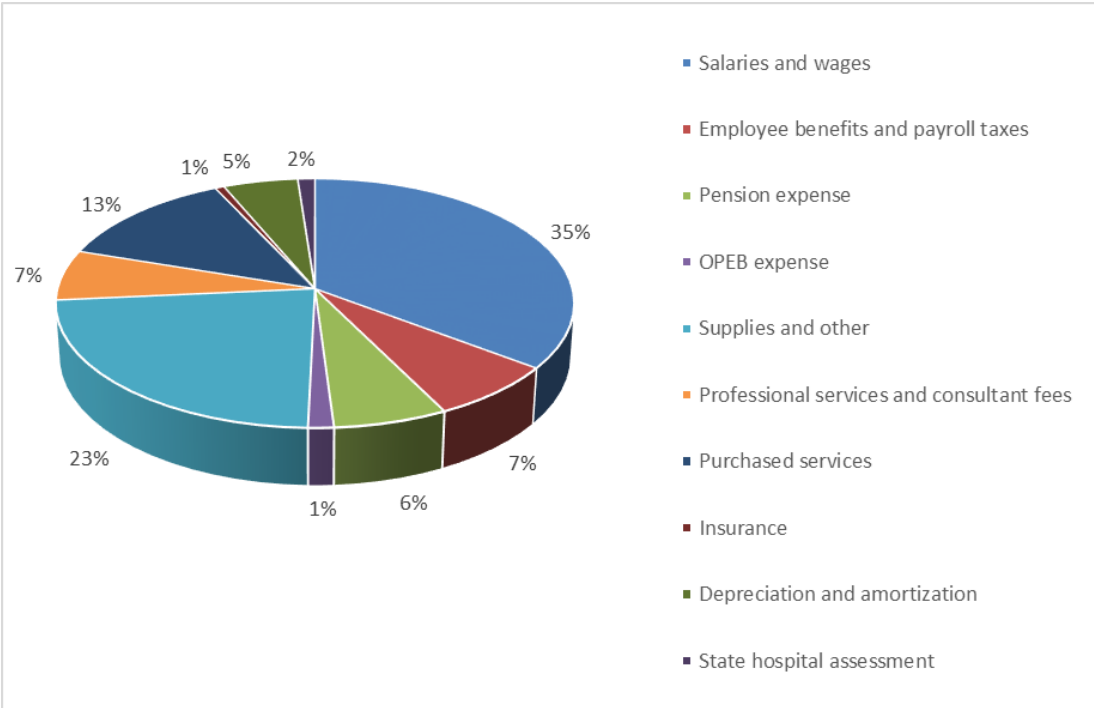
- The following is a graphic illustration of patient revenues by source:



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 OPEB expense increasing $1.4 million in 2018 due to the implementation of GASB 75. Additionally, employee benefits and payroll tax expense increased $1.5 million due to an increase in health claims paid during 2018. Pension expense decreased $1.5 million during 2018 due to a change in the pension liability as a result of changes in actuary estimates. Professional services and consulting fees increased $1.3 million due to increased legal costs and increased physician service costs.

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



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

	2018	2017 *	2016 *
Cash provided by (used in):			
Operating activities	$ 3,064,876	$ 9,028,791	$ 6,563,472
Investing activities	(1,710,267)	(2,328,613)	(1,642,233)
Capital and related financing activities	(6,409,530)	(7,842,542)	(5,148,934)
Total	(5,054,921)	(1,142,364)	(227,695)
Cash - beginning of year	11,606,090	12,748,454	12,976,149
Cash - end of year	$ 6,551,169	$ 11,606,090	$ 12,748,454

* 2017 and 2016 amounts do not reflect the adoption of GASB Statement No. 75

Net cash flows provided by operating activities decreased from the prior year primarily due to decreases in payments received from patients and third-party payors.

Net cash outflows used in capital and related financing activities decreased from the prior year due to decreases in fixed asset additions.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2018 and 2017, Berger Hospital (the "Hospital") had $121.2 million, and $116.2 million invested in capital assets, respectively. Accumulated depreciation at December 31, 2018 and 2017 totaled $85.4 million and $80.6 million, respectively. Net capital assets totaled $35.8 million and $35.6 million in 2018 and 2017, respectively. Depreciation totaled $4.8 million during 2018 compared to $4.7 million in 2017.

The net capital assets for the component units were approximately $696,000 and $735,000 for 2018 and 2017, respectively.

A summary for the Hospital is shown below.

	2018	2017	2016
Land and land improvements	$ 5,057,083	$ 4,911,857	$ 4,911,857
Buildings and fixed equipment	69,121,184	67,606,069	62,789,419
Major moveable equipment	46,811,156	43,086,955	41,590,396
Construction in progress	197,777	578,318	474,115
Total capital assets	121,187,200	116,183,199	109,765,787
Less accumulated depreciation	(85,378,837)	(80,570,127)	(75,905,716)
Capital assets, net	$ 35,808,363	$ 35,613,072	$ 33,860,071

Debt

At year end, the System had $19.7 million in long-term debt obligations outstanding compared to $20.7 million the previous year. The table below summarizes these amounts by year.

	December 31		
	2018	2017	2016
Total note payable and bonds	$ 19,695,000	$ 20,715,000	$ 21,695,000

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

Economic Factors and 2019 Budget

The System's board and management considered many factors when establishing the 2019 budget. The significant items addressed during the current year were: market dynamics and competition; payment reform; consumerism; the ongoing shift from inpatient to outpatient services; the impact of federal and state legislation; and the local economy. Also considered during the 2019 budget was the System's continued strategic partnership with OhioHealth.

Included in the System's financial statements is the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The System is required to recognize their proportionate share of the Ohio Public Employees Retirement System's (OPERS) unfunded liability within the System's financial statements. The System's balance sheet indicates a pension liability of $25.3 million in 2018 compared to a liability of $35.2 million in the prior year, and an OPEB liability of $18.0 million in 2018. The System's employee benefit expense was positively impacted in 2018 by a decrease in pension expense of $1.5 million, offset by an increase in OPEB expense of $1.4 million due to OPERS' performance. While the System's contributions to OPERS are established as a contribution rate of 14% of covered payroll, there can be significant variation in expense and balance sheet amounts between years as a result of actuarial studies conducted by OPERS. These changes and subsequent impact to the System's financial statements are not the System's obligation.

The table below summarizes our 2018 excess of revenue over (under) expenses and net position with and without the impact of GASB Statement No. 68 and GASB Statement No. 75:

	Results in accordance with GAAP	Impact w/o GASB 68 & 75
Operating Results		
Excess of revenue over (under) expenses	$ (9,669,868)	$ (2,281,609)
Net Position		
Assets and deferrals	$ 89,637,015	$ 80,707,564
Liabilities and deferrals	78,438,358	27,603,985
Net position	11,198,657	53,103,579
Total liabilities and net position	$ 89,637,015	$ 80,707,564

In summary, GASB Statement No. 68 and GASB Statement No. 75 impacts can be significant and either negatively or positively impact benefit expense, liabilities and net positon depending on OPERS' performance. The System's cash flows will be unaffected by these changes as long as statutory contribution rates remain unchanged.

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. We are committed to strategically investing 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@bergerhealth.com.

BERGER HEALTH SYSTEM

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS AND DEFERRALS

	December 31, 2018		December 31, 2017	
	Hospital	Component Units	Hospital	Component Units
Current assets				
Cash and cash equivalents	$ 4,802,595	$ 1,027,557	$ 9,333,675	$ 938,198
Short-term investments	8,832,425	-	6,163,819	-
Net patient accounts receivable	7,822,345	416,467	8,972,137	640,959
Estimated third-party payor settlements	1,376,681	-	1,110,760	-
Prepaid expenses and other	1,588,823	813,403	1,569,010	427,313
Inventory	1,208,716	-	1,198,389	-
Current portion of pledges receivable	-	161,047	-	314,088
Total current assets	25,631,585	2,418,474	28,347,790	2,320,558
Assets whose use is limited				
Restricted cash and investments	-	1,323,800	-	1,981,124
Long-term investments	14,707,658	-	17,019,277	-
Property and equipment, net	35,808,363	695,967	35,613,072	734,747
Long-term pledges receivable, net	-	121,717	-	247,048
Net pension asset	311,841	-	129,964	-
Total noncurrent assets	50,827,862	2,141,484	52,762,313	2,962,919
Deferred outflows of resources				
Pension	7,138,340	-	15,035,937	-
Other post-employment benefits	1,479,270	-	-	-
Total deferred outflows of resources	8,617,610	-	15,035,937	-
Total assets and deferrals	$ 85,077,057	$ 4,559,958	$ 96,146,040	$ 5,283,477

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

LIABILITIES, DEFERRALS AND NET POSITION

	December 31, 2018		December 31, 2017	
	Hospital	Component Units	Hospital	Component Units
Current liabilities				
Current portion of long-term debt	$ 1,025,000	$ -	$ 1,020,000	$ -
Accounts payable	3,951,685	279,527	3,110,849	518,240
Accrued compensation and related accruals	2,934,235	701,788	2,904,242	690,471
Accrued interest and other	41,750	-	49,224	-
Total current liabilities	7,952,670	981,315	7,084,315	1,208,711
Long-term debt - net of current portion	18,670,000	-	19,695,000	-
Other liabilities				
Net pension liability	25,344,848	-	35,155,173	-
Net other post-employment benefit liability	17,993,799	-	-	-
Total other liabilities	43,338,647	-	35,155,173	-
Deferred inflows of resources				
Pension	6,155,308	-	1,050,695	-
Other post-employment benefits	1,340,418	-	-	-
Total deferred inflows of resources	7,495,726	-	1,050,695	-
Total liabilities and deferrals	77,457,043	981,315	62,985,183	1,208,711
Net Position (Deficit in Net Position)				
Net invested in capital assets	16,113,363	695,967	14,898,072	734,747
Restricted	-	1,606,564	-	2,542,260
Unrestricted	(8,493,349)	1,276,112	18,262,785	797,759
Total net position	7,620,014	3,578,643	33,160,857	4,074,766
Total liabilities, deferrals and net position	$ 85,077,057	$ 4,559,958	$ 96,146,040	$ 5,283,477

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018		December 31, 2017	
	Hospital	Component Units	Hospital	Component Units
Operating revenues				
Net patient service revenue	$ 75,423,414	$ 7,049,473	$ 77,262,445	$ 7,694,611
Other operating revenue	2,398,708	1,591,900	2,472,769	1,549,581
Total operating revenues	77,822,122	8,641,373	79,735,214	9,244,192
Operating expenses				
Salaries and wages	24,182,071	9,204,555	24,244,605	8,709,351
Employee benefits and payroll taxes	12,522,786	1,492,929	11,189,036	1,518,719
Operating supplies and other	19,700,131	2,173,840	18,964,895	2,499,685
Professional services and consultant fees	6,198,518	-	4,945,516	-
Purchased services	10,017,204	2,147,299	11,141,684	1,843,317
Insurance	478,569	125,741	515,312	189,490
Depreciation and amortization	4,830,590	75,461	4,705,571	84,406
State hospital assessment	1,132,325	-	1,138,867	-
Total operating expenses	79,062,194	15,219,825	76,845,486	14,844,968
Operating income (loss)	(1,240,072)	(6,578,452)	2,889,728	(5,600,776)
Other income (expenses)				
Interest income	404,805	-	137,262	-
Gain on sale of property	-	-	7,155	-
Contributions	84,581	-	268,987	-
Interest expense	(538,521)	-	(569,346)	-
Program support grants	-	(942,592)	-	(1,207,451)
Other expense	(729,833)	(129,784)	(717,885)	(377,777)
Total other expenses	(778,968)	(1,072,376)	(873,827)	(1,585,228)
Contribution (to) from component units	(7,020,259)	7,020,259	(6,118,860)	6,118,860
Excess of revenue over (under) expenses	(9,039,299)	(630,569)	(4,102,959)	(1,067,144)
Contributions of restricted assets	-	134,446	-	375,433
Change in net position	(9,039,299)	(496,123)	(4,102,959)	(691,711)
Net position - beginning of year:				
Beginning of year, as previously reported	33,160,857	4,074,766	37,263,816	4,766,477
Cumulative effect of accounting change	(16,501,544)	-	-	-
Beginning of year, as restated	16,659,313	4,074,766	37,263,816	4,766,477
Net position - end of year	$ 7,620,014	$ 3,578,643	$ 33,160,857	$ 4,074,766

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		2017	
	Hospital	Component Units	Hospital	Component Units
Operating activities				
Cash received from patients and third-party payors	$ 76,307,285	$ 7,273,965	$ 80,347,018	$ 7,726,477
Cash payments to suppliers for services and goods	(36,716,051)	(5,071,683)	(37,155,034)	(4,304,583)
Cash payments to employees for salaries, wages and benefits	(32,311,453)	(10,686,167)	(31,273,462)	(10,358,922)
Other operating revenue	2,398,708	1,870,272	2,472,769	1,574,528
Net cash flows from operating activities	9,678,489	(6,613,613)	14,391,291	(5,362,500)
Investing activities				
Proceeds from investments	8,961,157	68,812	12,150,579	8,404
Cash paid for investments	(9,318,144)	(24,688)	(12,252,614)	(76,286)
Interest income and other	(325,028)	(1,072,376)	(573,468)	(1,585,228)
Net cash flows from investing activities	(682,015)	(1,028,252)	(675,503)	(1,653,110)
Cash flows from noncapital financing activities				
Contributions to component units	(7,020,259)	7,020,259	(6,118,860)	6,118,860
Net cash from noncapital financing activities	(7,020,259)	7,020,259	(6,118,860)	6,118,860
Capital and related financing activities				
Acquisition and construction of capital assets	(5,025,881)	(36,681)	(6,502,412)	(270,388)
Proceeds from disposal of capital assets	-	-	50,995	-
Gain on disposal of capital assets	-	-	(7,155)	-
Grants and contributions	84,581	134,446	268,987	375,433
Interest paid on long-term debt	(545,995)	-	(778,002)	-
Principal payments on long-term debt	(1,020,000)	-	(980,000)	-
Net cash flows from capital and related financing activities	(6,507,295)	97,765	(7,947,587)	105,045
Change in cash and cash equivalents	(4,531,080)	(523,841)	(350,659)	(791,705)
Cash and cash equivalents - beginning of year	9,333,675	2,272,415	9,684,334	3,064,120
Cash and cash equivalents- end of year	$ 4,802,595	$ 1,748,574	$ 9,333,675	$ 2,272,415
Balance sheet classification of cash				
Cash and cash equivalents	$ 4,802,595	$ 1,027,557	$ 9,333,675	$ 938,198
Restricted cash and cash equivalents	-	721,017	-	1,334,217
	$ 4,802,595	$ 1,748,574	$ 9,333,675	$ 2,272,415

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Hospital	Component Units	Hospital	Component Units
Operating income (loss)	$ (1,240,072)	$ (6,578,452)	$ 2,889,728	$ (5,600,776)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation and amortization	4,830,590	75,461	4,705,571	84,406
Provision for bad debt	8,331,987	(21,623)	6,593,081	224,770
Non-cash pension cost	3,010,008	-	4,273,818	-
Non-cash OPEB cost	1,353,403	-	-	-
Changes in assets and liabilities				
Patient accounts receivable	(7,182,195)	246,115	(5,335,314)	(192,904)
Other assets	(30,140)	(107,718)	155,167	(24,991)
Accounts payable and accrued liabilities	870,829	(227,396)	(561,173)	146,995
Other liabilities	-	-	(156,393)	-
Estimated third party settlements	(265,921)	-	1,826,806	-
Net cash flows from operating activities	$ 9,678,489	$ (6,613,613)	$ 14,391,291	$ (5,362,500)

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Current assets				
Cash and cash equivalents	$ 86,006	$ 1,353	$ 940,198	$ 1,027,557
Net patient accounts receivable	416,467	-	-	416,467
Prepaid expenses and other	728,423	-	84,980	813,403
Current portion of pledges receivable	-	-	161,047	161,047
Total current assets	1,230,896	1,353	1,186,225	2,418,474
Assets whose use is limited				
Restricted cash and investments	-	-	1,323,800	1,323,800
Property and equipment, net	310,000	-	385,967	695,967
Long-term pledges receivable, net	-	-	121,717	121,717
Total assets	$ 1,540,896	$ 1,353	$ 3,017,709	$ 4,559,958
Current liabilities				
Accounts payable	$ 208,557	-	$ 70,970	$ 279,527
Accrued compensation and related accruals	684,637	-	17,151	701,788
Total current liabilities	893,194	-	88,121	981,315
Total liabilities	893,194	-	88,121	981,315
Net position				
Net invested in capital assets	310,000	-	385,967	695,967
Restricted	-	-	1,606,564	1,606,564
Unrestricted	337,702	1,353	937,057	1,276,112
Total net position	647,702	1,353	2,929,588	3,578,643
Total liabilities and net position	$ 1,540,896	$ 1,353	$ 3,017,709	$ 4,559,958

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Current assets				
Cash and cash equivalents	$ 14,199	$ 9,131	$ 914,868	$ 938,198
Net patient accounts receivable	640,959	-	-	640,959
Prepaid expenses and other	343,839	-	83,474	427,313
Current portion of pledges receivable	-	-	314,088	314,088
Total current assets	998,997	9,131	1,312,430	2,320,558
Assets whose use is limited				
Restricted cash and investments	-	-	1,981,124	1,981,124
Property and equipment, net	348,780	-	385,967	734,747
Long-term pledges receivable, net	-	-	247,048	247,048
Total assets	$ 1,347,777	$ 9,131	$ 3,926,569	$ 5,283,477
Current liabilities				
Accounts payable	$ 278,757	$ -	$ 239,483	$ 518,240
Accrued compensation and related accruals	678,663	-	11,808	690,471
Total current liabilities	957,420	-	251,291	1,208,711
Total liabilities	957,420	-	251,291	1,208,711
Net position				
Net invested in capital assets	348,780	-	385,967	734,747
Restricted	-	-	2,542,260	2,542,260
Unrestricted	41,577	9,131	747,051	797,759
Total net position	390,357	9,131	3,675,278	4,074,766
Total liabilities and net position	$ 1,347,777	$ 9,131	$ 3,926,569	$ 5,283,477

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2018

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating revenues				
Net patient service revenue	$ 7,049,473	$ -	$ -	$ 7,049,473
Other operating revenue	1,437,134	-	154,766	1,591,900
Total operating revenues	8,486,607	-	154,766	8,641,373
Operating expenses				
Salaries and wages	8,980,608	-	223,947	9,204,555
Employee benefits and payroll taxes	1,382,547	-	110,382	1,492,929
Operating supplies and other	2,139,253	-	34,587	2,173,840
Purchased services	2,112,403	-	34,896	2,147,299
Insurance	125,741	-	-	125,741
Depreciation and amortization	75,461	-	-	75,461
Total operating expenses	14,816,013	-	403,812	15,219,825
Operating loss	(6,329,406)	-	(249,046)	(6,578,452)
Other expenses				
Program support grants	-	-	(942,592)	(942,592)
Other	-	-	(129,784)	(129,784)
Total other expenses	-	-	(1,072,376)	(1,072,376)
Contribution (to) from Hospital	6,586,751	(7,778)	441,286	7,020,259
Excess of revenue over (under) expenses	257,345	(7,778)	(880,136)	(630,569)
Contributions of restricted assets	-	-	134,446	134,446
Change in net position	257,345	(7,778)	(745,690)	(496,123)
Net position - beginning of year	390,357	9,131	3,675,278	4,074,766
Net position - end of year	$ 647,702	$ 1,353	$ 2,929,588	$ 3,578,643

See accompanying notes to financial statements.

BERGER HEALTH SYSTEM

COMPONENT UNITS - COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017

	Berger Health Partners	Pickaway Professional Services	Berger Health Foundation	Component Unit Totals
Operating revenues				
Net patient service revenue	$ 7,687,923	$ 6,688	$ -	$ 7,694,611
Other operating revenue	1,283,667	-	265,914	1,549,581
Total operating revenues	8,971,590	6,688	265,914	9,244,192
Operating expenses				
Salaries and wages	8,532,821	-	176,530	8,709,351
Employee benefits and payroll taxes	1,473,612	-	45,107	1,518,719
Operating supplies and other	2,469,988	(132)	29,829	2,499,685
Purchased services	1,795,808	830	46,679	1,843,317
Insurance	189,490	-	-	189,490
Depreciation and amortization	84,406	-	-	84,406
Total operating expenses	14,546,125	698	298,145	14,844,968
Operating income (loss)	(5,574,535)	5,990	(32,231)	(5,600,776)
Other expenses				
Program support grants	-	-	(1,207,451)	(1,207,451)
Other	-	-	(377,777)	(377,777)
Total other expenses	-	-	(1,585,228)	(1,585,228)
Contribution (to) from Hospital	5,815,080	(5,913)	309,693	6,118,860
Excess of revenue over (under) expenses	240,545	77	(1,307,766)	(1,067,144)
Contributions of restricted assets	-	-	375,433	375,433
Change in net position	240,545	77	(932,333)	(691,711)
Net position - beginning of year	149,812	9,054	4,607,611	4,766,477
Net position - end of year	$ 390,357	$ 9,131	$ 3,675,278	$ 4,074,766

See accompanying notes to financial statements.

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 16.

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.

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 $721,000 and $1,334,000 at December 31, 2018 and 2017, 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 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.

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.

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 $79,062,000 and $76,845,000 during 2018 and 2017), an estimated $228,000 and $214,000 arose from providing services to charity patients during 2018 and 2017, 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 $1,120,000 and $1,691,000 for 2018 and 2017, respectively, and are reported as net patient service revenue in the financial statements.

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.

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. There was no impact on changes in net position as a result of this reclassification.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 26, 2019, which is the date the financial statements are issued.

2. CHANGE IN ACCOUNTING PRINCIPLE

In 2018, the System implemented the GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*. This statement requires employers in cost sharing, multi-employer plans to recognize a proportionate share of the net OPEB liabilities of the plans. The System participants in one multiple-employer pension plan, the OPERS, which provides post-retirement healthcare benefits. A proportionate share of the net OPEB liabilities of the retirement system has been allocated to the System, based on retirement plan contributions for System employees. The cumulative effect of adopting GASB Statement No. 75 was a $16,501,544 reduction in the Systems previously presented net position as of December 31, 2017. The 2017 financial statements have not been restated as the System's OPEB liability amounts were not individually calculated as of December 30, 2016, and it was not deemed practical to determine its impact on the opening 2017 financial position or the effect on the 2017 change in net position. Additional information regarding the net OPEB liability, related deferrals and OPEB expense is provided in Note 12.

3. 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.

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.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had approximately $6,028,000 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 loses 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	
December 31, 2018	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	$ 267,891	$ 267,891	$ -
U.S. treasury notes	10,385,525	3,373,765	7,011,760
U.S. agency bonds	12,805,056	5,109,158	7,695,898
Total	$ 23,458,472	$ 8,750,814	$ 14,707,658

Component Units		Maturities	
December 31, 2018	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	$ 173,022	$ 173,022	$ -
Total	$ 173,022	$ 173,022	$ -

Hospital		Maturities	
December 31, 2017	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	$ 262,721	$ 262,721	$ -
U.S. treasury notes	9,394,829	2,788,162	6,606,667
U.S. agency bonds	13,465,079	3,052,469	10,412,610
Total	$ 23,122,629	$ 6,103,352	$ 17,019,277

Component Units		Maturities	
December 31, 2017	Carrying Amount	< 1 year	> 1 year
Certificates of deposit	$ 170,992	$ 170,992	$ -
Total	$ 170,992	$ 170,992	$ -

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

	2018		2017	
Hospital	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits (including restricted)	$ 4,802,595	$ 4,802,595	$ 9,333,675	$ 9,333,675
Money market	81,611	81,611	60,467	60,467
Certificates of deposit	267,891	267,891	262,721	262,721
U.S. treasury notes	10,385,525	10,419,281	9,394,829	9,447,918
U.S. agency bonds	12,805,056	12,780,481	13,465,079	13,505,025
Total	$ 28,342,678	$ 28,351,859	$ 32,516,771	$ 32,609,806

	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 4,802,595	$ 4,802,595	$ 9,333,675	$ 9,333,675
Investments	23,540,083	23,549,264	23,183,096	23,276,131
Total	$ 28,342,678	$ 28,351,859	$ 32,516,771	$ 32,609,806

	2018		2017	
Component Units	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits	$ 1,575,552	$ 1,575,552	$ 2,101,423	$ 2,102,233
Certificates of deposit	173,022	173,022	170,992	170,992
Mutual funds	602,783	550,551	646,907	543,244
Total	$ 2,351,357	$ 2,299,125	$ 2,919,322	$ 2,816,469

	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 1,027,557	$ 1,027,557	$ 938,198	$ 938,198
Assets whose use is limited	1,323,800	1,271,568	1,981,124	1,878,271
Total	$ 2,351,357	$ 2,299,125	$ 2,919,322	$ 2,816,469

4. 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 December 31, 2018 and 2017.

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.

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 either 2018 or 2017.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 are as follows:

Hospital	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	$ -	$ 81,611	$ -	$ 81,611
U.S. treasury notes	-	10,385,525	-	10,385,525
U.S agency bonds:				
Federal home loans	-	3,413,107	-	3,413,107
Federal National Mortgage Association	-	4,580,743	-	4,580,743
Federal Home Loan Mortgage Corporation	-	4,232,209	-	4,232,209
Federal Farm Credit Banks	-	578,997	-	578,997
	-	23,272,192	-	23,272,192
Cash	-	-	-	4,802,595
Certificates of deposit	-	-	-	267,891
Total assets	$ -	$ 23,272,192	$ -	$ 28,342,678

Component Units	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Large growth	$ 68,164	$ -	$ -	$ 68,164
Moderate allocation	236,098	-	-	236,098
World allocation	218,934	-	-	218,934
Short-term bond	79,587	-	-	79,587
	602,783	-	-	602,783
Cash	-	-	-	1,575,552
Certificate of deposit	-	-	-	173,022
Total assets	$ 602,783	$ -	$ -	$ 2,351,357

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows:

Hospital	Level 1	Level 2	Level 3	Total
Assets:				
Money markets	$ -	$ 60,467	$ -	$ 60,467
U.S. treasury notes	-	9,394,829	-	9,394,829
U.S agency bonds:				
Federal home loans	-	2,757,386	-	2,757,386
Federal National Mortgage Association	-	4,661,832	-	4,661,832
Federal Home Loan Mortgage Corporation	-	6,045,861	-	6,045,861
	-	22,920,375	-	22,920,375
Cash	-	-	-	9,333,675
Certificates of deposit	-	-	-	262,721
Total assets	$ -	$ 22,920,375	$ -	$ 32,516,771

Component Units	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Large growth	$ 71,064	$ -	$ -	$ 71,064
Moderate allocation	254,438	-	-	254,438
World allocation	239,967	-	-	239,967
Short-term bond	81,438	-	-	81,438
	646,907	-	-	646,907
Cash	-	-	-	2,101,423
Certificate of deposit	-	-	-	170,992
Total assets	$ 646,907	$ -	$ -	$ 2,919,322

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

Hospital	2018	2017
Patient accounts receivable	$ 21,311,032	$ 23,130,903
Less allowance for uncollectible accounts	(5,227,895)	(4,178,211)
Less allowance for contractual adjustments	(8,260,792)	(9,980,555)
Net patient accounts receivable	$ 7,822,345	$ 8,972,137

Component Units	2018	2017
Patient accounts receivable	$ 780,187	$ 1,064,932
Less allowance for uncollectible accounts	(66,862)	(88,482)
Less allowance for contractual adjustments	(296,858)	(335,491)
Net patient accounts receivable	$ 416,467	$ 640,959

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:

	2018		2017	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	15%	25%	15%	26%
Medicare managed	12%	21%	13%	21%
Medicaid	1%	1%	2%	2%
Medicaid managed	11%	21%	18%	22%
Commercial	31%	27%	24%	25%
Self-pay	30%	5%	28%	4%
	100%	100%	100%	100%

6. 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 December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Receivable in less than one year	$ 161,047	$ 314,088
Receivable in one to five years	201,048	325,528
Total unconditional promises to give	362,095	639,616
Less discounts to net present value	(35,973)	(61,125)
Less allowance for uncollectible promises	(43,358)	(17,355)
Net unconditional promises to give	$ 282,764	$ 561,136

The rate used to discount unconditional promises to net present value was 6% for 2018 and 2017. The rate used to calculate the allowance for uncollectible amounts was 12% and 3% for 2018 and 2017, respectively.

7. 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 2016 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.

8. PROPERTY AND EQUIPMENT

Property and equipment for the Hospital for the years ended December 31, 2018 and 2017 was as follows:

	2017	Additions	Transfers	Retirements	2018
Capital assets not being depreciated:					
Land	$ 3,235,731	$ 93,935	$ -	$ -	$ 3,329,666
Construction in progress	578,318	4,931,946	(5,290,607)	(21,880)	197,777
Subtotal	3,814,049	5,025,881	(5,290,607)	(21,880)	3,527,443
Capital assets being depreciated:					
Land improvements	1,676,126	-	51,291	-	1,727,417
Buildings	34,329,189	-	281,065	-	34,610,254
Building improvements	33,276,880	-	1,234,050	-	34,510,930
Equipment	43,086,955	-	3,724,201	-	46,811,156
Subtotal	112,369,150	-	5,290,607	-	117,659,757
Total capital assets	116,183,199	5,025,881	-	(21,880)	121,187,200
Accumulated depreciation:					
Land improvements	1,581,367	68,395	-	-	1,649,762
Buildings	24,070,671	1,124,946	-	-	25,195,617
Building improvements	17,857,027	1,740,122	-	-	19,597,149
Equipment	37,061,062	1,897,127	-	(21,880)	38,936,309
Subtotal	80,570,127	4,830,590	-	(21,880)	85,378,837
Net capital assets	$ 35,613,072	$ 195,291	$ -	$ -	$ 35,808,363

	2016	Additions	Transfers	Retirements	2017
Capital assets not being depreciated:					
Land	$ 3,235,731	$ -	$ -	$ -	$ 3,235,731
Construction in progress	474,115	6,502,412	(6,398,209)	-	578,318
Subtotal	3,709,846	6,502,412	(6,398,209)	-	3,814,049
Capital assets being depreciated:					
Land improvements	1,676,126	-	-	-	1,676,126
Buildings	34,414,189	-	-	(85,000)	34,329,189
Building improvements	28,375,230	-	4,901,650	-	33,276,880
Equipment	41,590,396	-	1,496,559	-	43,086,955
Subtotal	106,055,941	-	6,398,209	(85,000)	112,369,150
Total capital assets	109,765,787	6,502,412	-	(85,000)	116,183,199
Accumulated depreciation:					
Land improvements	1,515,183	66,184	-	-	1,581,367
Buildings	22,905,763	1,206,068	-	(41,160)	24,070,671
Building improvements	16,146,438	1,710,589	-	-	17,857,027
Equipment	35,338,332	1,722,730	-	-	37,061,062
Subtotal	75,905,716	4,705,571	-	(41,160)	80,570,127
Net capital assets	$ 33,860,071	$ 1,796,841	$ -	$ (43,840)	$ 35,613,072

Capital asset activity for the component units for the year ended December 31, 2018 included approximately $37,000 of additions and $75,000 of depreciation. Capital asset activity for the component units for the year ended December 31, 2017 included approximately $270,000 of additions and $84,000 of depreciation.

Depreciation expense on capital assets for the Hospital and component units combined for the year ended December 31, 2018 and 2017 totaled approximately $4,906,000 and $4,790,000, respectively.

Certain amounts included in construction in progress relate to the Hospital's computed tomography equipment for which the estimated remaining costs for completion approximate $350,000 as of December 31, 2018.

9. ACCRUED COMPENSATION AND RELATED ACCRUALS

Hospital	2018	2017
Payroll and related items	$ 2,280,988	$ 2,400,403
Self-insured benefits	276,058	197,636
Health insurance claims	377,189	306,203
Total accrued compensation and related accruals	$ 2,934,235	$ 2,904,242

Component units	2018	2017
Payroll and related items	$ 577,916	$ 603,513
Self-insured benefits	29,804	313
Health insurance claims	94,068	86,645
Total accrued compensation and related accruals	$ 701,788	$ 690,471

10. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2018 for both the Hospital and component units was as follows:

	2017	Current Year Additions	Current Year Reductions	2018	Amounts Due Within One Year
City of Circleville, Ohio Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2014 (maturing in June 2034)	$ 20,715,000	$ -	$ (1,020,000)	$ 19,695,000	$ 1,025,000
Total long-term debt and other liabilities	$ 20,715,000	$ -	$ (1,020,000)	$ 19,695,000	$ 1,025,000

Long-term debt activity for the year ended December 31, 2017 for both the Hospital and component units was as follows:

	2016	Current Year Additions	Current Year Reductions	2017	Amounts Due Within One Year
City of Circleville, Ohio Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2014 (maturing in June 2034)	$ 21,695,000	$ -	$ (980,000)	$ 20,715,000	$ 1,020,000
Total long-term debt and other liabilities	$ 21,695,000	$ -	$ (980,000)	$ 20,715,000	$ 1,020,000

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 $390,000 in June 2034 at a fixed rate of 2.67 percent. The bonds are subject to tender for mandatory purchase on June 1, 2021, unless waived by the holder.

In conjunction with the Series 2014 Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. At December 31, 2018, the System did not meet certain covenants relating to debt service coverage and debt to capitalization. The System obtained a waiver of these requirements. 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:

	Long-term Debt	
Years Ending December 31	Principal	Interest
2019	$ 1,025,000	$ 522,743
2020	1,070,000	495,872
2021	1,090,000	465,284
2022	1,130,000	435,404
2023	1,150,000	404,576
2024-2028	6,275,000	1,533,239
2029-2033	7,180,000	625,859
2034	775,000	7,801
Total	$ 19,695,000	$ 4,490,778

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, 2018:

Years Ending December 31	Minimum Annual Lease Payments
2019	$ 918,758
2020	764,829
2021	769,596
2022	708,487
2023	510,095
Thereafter	1,295,740
Total	$ 4,967,505

Total rent expense for the years ended December 31, 2018 and 2017 was approximately $819,000 and $1,047,000 for the Hospital. Total rent expense for the years ended December 31, 2018 and 2017 was approximately $730,000 and $719,000 for the component units. The majority of this expense is intercompany and the corresponding revenue is recorded in the Hospital.

11. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

Hospital	2018	2017
Patient revenue:		
Inpatient services	$ 51,438,492	$ 44,637,358
Outpatient services	159,928,785	164,647,751
Total patient revenue	211,367,277	209,285,109
Revenue deductions:		
Provision for contractual allowances	127,003,170	124,846,593
Provision for bad debt allowances	8,331,987	6,593,081
Charity care	608,706	582,990
Total revenue deductions	135,943,863	132,022,664
Total net patient service revenue	$ 75,423,414	$ 77,262,445

Component units	2018	2017
Patient revenue:		
Outpatient services	$ 12,297,775	$ 13,351,152
Total patient revenue	12,297,775	13,351,152
Revenue deductions:		
Provision for contractual allowances	5,269,925	5,431,771
Provision for bad debt allowances	(21,623)	224,770
Total revenue deductions	5,248,302	5,656,541
Total net patient service revenue	$ 7,049,473	$ 7,694,611

12. 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.

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 December 31 are as follows:

	2018	2017
Net pension liability - all employers	$ 15,688,061,327	$ 22,708,299,469
Proportion of the net pension liability - System	0.16156%	0.15481%
	$ 25,344,848	$ 35,155,173

	2018	2017
Net pension asset - all employers	$ 139,622,519	$ 56,073,439
Proportion of the net pension asset - System	0.22335%	0.23177%
	$ 311,841	$ 129,964

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

		2018
Net OPEB liability - all employers	$	10,859,263,395
Proportion of the net OPEB liability - System		0.16570%
	$	17,993,799

At December 31, 2018, 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	$	40,819
Assumption changes		3,056,369
Change in proportionate share		842,089
Difference between Berger contributions and proportionate share of contributions		174,215
Employer contributions subsequent to the measurement date		3,024,848
Total	$	7,138,340
Deferred inflows of resources		
Difference between expected and actual experience	$	590,079
Net difference between projected and actual earnings on pension plan		5,491,357
Difference between Berger contributions and proportionate share of contributions		57,628
Change in proportionate share		16,244
Total	$	6,155,308

At December 31, 2017, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources		
Net difference between projected and actual earnings on pension plan investments	$	5,784,005
Difference between expected and actual experience		53,158
Assumption changes		5,608,561
Change in proportionate share		252,484
Difference between Berger contributions and proportionate share of contributions		286,385
Employer contributions subsequent to the measurement date		3,051,344
Total	$	15,035,937
Deferred inflows of resources		
Difference between expected and actual experience	$	272,898
Net difference between projected and actual earnings on pension plan		618,778
Difference between Berger contributions and proportionate share of contributions		66,142
Change in proportionate share		92,877
Total	$	1,050,695

At December 31, 2018, 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	$	14,017
Assumption changes		1,310,139
Difference between Berger contributions and proportionate share of contributions		155,114
Total	$	1,479,270
Deferred inflows of resources		
Net difference between projected and actual earnings on OPEB plan	$	1,340,418
Total	$	1,340,418

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending December 31 as follows:

2019	$	2,780,608
2020		(151,216)
2021		(2,396,570)
2022		(2,259,814)
2023		(6,429)
2024 and Thereafter		(8,395)
Total	$	(2,041,816)

Net deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense during the years ending December 31 as follows:

2019	$	372,139
2020		372,139
2021		(270,321)
2022		(335,105)
Total	$	138,852

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.

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.

Additional details on health care coverage can be found in the plan statement in the OPERS 20178 CAFR. OPERS no longer participants in the Medicare Part D program as of December 31, 2016. OPERS will receive the final distribution of funds from the Medicare Part D program for calendar year 2016 in 2018. Total federal subsidies received for the year ended December 31, 2017 were $812,170.

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 1% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0%. 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%.

Measurement Date

December 31, 2017 (OPEB is rolled forward from December 31, 2016 actuarial valuation date)

Actuarial Assumptions

Valuation Date: December 31, 2017 for pension and December 31, 2016 for OPEB
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 7.50% for pension and 6.5% 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: 7.5% initial; 3.25% ultimate

Mortality Rates

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale.

Date of Last Experience Study

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.

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Alllocation	Long Term Expected Return *
Fixed Income	23.00%	2.20%
Domestic Equity	19.00%	6.37%
Real Estate	10.00%	5.26%
Private Equity	10.00%	8.97%
International Equity	20.00%	7.88%
Other Investments	18.00%	5.26%
Total	100.00%	

* Returns presented as arithmetic means

The following table displays the OPERS Board-approved asset allocation policy for health care assets for 2017 and the long-term expected real rates of return:

Asset Class	Target Alllocation	Long Term Expected Return *
Fixed Income	34.00%	1.88%
Domestic Equity	21.00%	6.37%
Real Estate	6.00%	5.91%
International Equity	22.00%	7.88%
Other Investments	17.00%	5.39%
Total	100.00%	

* Returns presented as arithmetic means

Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.5% for both the Traditional Pension Plan, the Combined Plan and the 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, as actuarially. 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB: A discount rate of 3.85% was used to measure the total OPEB liability on the measurement date of December 31, 2017. 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 6.50% and a municipal bond rate of 3.31%. 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 contribution rate. Based on those assumptions, the OPEB plan’s fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, 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 7.5% was used to measure the total OPEB liability on the measurement date of December 31, 2017. 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 increases in the current cost of health care; the trend starting in 2018 in 7.5%. 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-distance 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 (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
$ 45,005,992	$ 25,344,848	$ 8,953,378

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
$ 169,743	$ 311,841	$ 410,956

Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.85%)	Current Rate (3.85%)	1% Increase (4.85%)
$ 23,905,539	$ 17,993,799	$ 13,211,261

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

1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
$ 17,216,230	$ 17,993,799	$ 18,797,008

Total pension expense for the year ended December 31, 2018 and 2017 was $6,034,856 and $7,557,904, respectively. Total OPEB expense for the year ended December 31, 2018 was $1,353,403.

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.

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 $5,000,000 and $3,400,000 for the years ended December 31, 2018 and 2017, respectively.

15. RECENT GASB PRONOUNCEMENTS

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

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* issued March 2018, will be effective for periods beginning after June 15, 2018. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* issued June 2018, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

16. 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.

BERGER HEALTH SYSTEM

SUPPLEMENTARY INFORMATION ON GASB 68 OTHER POSTEMPLOYMENT BENEFIT LIABILITIES (UNAUDITED)
DECEMBER 31, 2018

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	2018	2017	2016	2015
System proportion of the collective net pension liability	0.16156%	0.15481%	15.18400%	0.15391%
System proportionate share of the net pension liability	$ 25,345,000	$ 35,155,000	$ 26,300,000	$ 18,563,000
System proportion of the collective net pension asset	0.22335%	0.23177%	0.23673%	0.24163%
System proportionate share of the net pension asset	$ 312,000	$ 130,000	$ 116,000	$ 93,000
System covered payroll	$ 23,472,000	$ 20,374,000	$ 21,031,000	$ 21,063,000
System proportionate share of the net pension liabilty as a percentage of its covered payroll	106.7%	171.9%	124.5%	87.7%
Plan fiduciary net position as a percentage of the total pension liability	84.9%	77.4%	81.2%	86.5%
Schedule of System Contributions				
Contractually required pension contribution	$ 3,025,000	$ 3,051,000	$ 2,445,000	$ 2,524,000
Contributions in relation to the contractually required contribution	$ 3,025,000	$ 3,051,000	$ 2,445,000	$ 2,524,000
Contribution deficiency (excess)	-	-	-	-
Covered payroll	$ 21,606,000	$ 23,472,000	$ 20,374,000	$ 21,031,000
Contributions as a percentage of covered payroll	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

SUPPLEMENTARY INFORMATION ON GASB 75 OTHER POSTEMPLOYMENT BENEFIT LIABILITIES (UNAUDITED)
DECEMBER 31, 2018

Schedule of Proportionate Share of the Net OPEB Liability (rounded to the nearest 1,000)	2018	2017	2016	2015
System proportion of the collective net OPEB liability	0.16570%	-	-	-
System proportionate share of the net OPEB liability	$ 17,993,799	-	-	-
System covered payroll	$ 23,472,000	$ 20,374,000	$ 21,031,000	$ 21,063,000
System proportionate share of the net OPEB liabilty as a percentage of its covered payroll	76.7%	-	-	-
Plan fiduciary net position as a percentage of the total OPEB liability	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%	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.

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blue

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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 year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated April 26, 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.

Blue & Co., LLC

Westerville, Ohio
April 26, 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
JUNE 13, 2019