# Wyandot Memorial Hospital

Auditor's Report and Financial Statements

December 31, 2013 and 2012

# Dave Yost • Auditor of State

Board of Directors
Wyandot Memorial Hospital
885 North Sandusky Ave
Upper Sandusky, Ohio 43351

We have reviewed the *Independent Auditor's Report* of the Wyandot Memorial Hospital, Wyandot County, prepared by BKD, LLP, for the audit period January 1, 2013 through December 31, 2013. 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 Wyandot Memorial Hospital is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

June 16, 2014

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# Wyandot Memorial Hospital

**December 31, 2013 and 2012**

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# Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Governors
Wyandot Memorial Hospital
Upper Sandusky, Ohio

## Report on the Financial Statements

We have audited the accompanying financial statements of Wyandot Memorial Hospital (Hospital) and its discretely presented component unit, Wyandot Health Foundation, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Wyandot Health Foundation, Inc., which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its discretely presented component unit as of December 31, 2013 and 2012, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014, on our consideration of the Hospital'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Fort Wayne, Indiana
May 15, 2014

# Wyandot Memorial Hospital

## Management's Discussion and Analysis
## Years Ended December 31, 2013 and 2012

### *Management's Discussion and Analysis*

The discussion and analysis of Wyandot Memorial Hospital's (the "Hospital") financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2013, 2012, and 2011. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

### *Using This Annual Report*

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the financial statements, and notes to the financial statements. These financial statements and related notes provide information about the activities of the Hospital, including resources held but restricted for specific purposes by contributors, grantors, or enabling legislation.

### *Financial Highlights*

The Hospital's net position continued to improve during the year ended December 31, 2013. Current assets decreased $2,333,449, or 7.97 percent, and general long-term investments increased $4,934,761 or 137.16 percent, from the prior year. This is due primarily to the classification of total cash and cash equivalents and short-term investments as investments being classified as non-current assets due to investments with maturities longer than one year. In total, the Hospital's net position increased by $3,935,921, or 7.96 percent, from the previous year. The increase in net position for 2012 was 10.07 percent, and for 2011 the increase was 3.67 percent. The increased net position was primarily caused by an increase in net patient revenue and changes in previously estimated amounts due from third party payors, and continued expense control. The following chart provides a breakdown of the Hospital's net position by category for the years ended December 31, 2013, 2012 and 2011:

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| **Net Position** | | | |
| Net investment in capital assets | $ 20,327,671 | $ 20,842,761 | $ 19,756,795 |
| Restricted | 1,832,405 | 1,852,501 | 1,847,633 |
| Unrestricted | 31,193,460 | 26,722,353 | 23,291,458 |

For the year ended December 31, 2013, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of $3,935,921. The increase for 2012 and 2011 was $4,521,729 and $1,589,409, respectively.

### *The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Position*

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital as a whole and on its activities in a way that helps answer this question. These statements include all restricted and unrestricted

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

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### *Table 1: Assets, Liabilities and Net Position*

| | Year Ended December 31 | | | 2013/2012 Change | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | Amount | Percent |
| **Assets** | | | | | |
| Current assets | $ 26,950,104 | $ 29,283,553 | $ 22,910,973 | $ (2,333,449) | -7.97% |
| Assets limited as to use | 1,832,405 | 1,852,501 | 1,847,633 | (20,096) | -1.08% |
| General long-term investments | 8,532,461 | 3,597,700 | 7,299,276 | 4,934,761 | 137.16% |
| Capital assets | 20,327,671 | 20,842,761 | 19,756,795 | (515,090) | -2.47% |
| Total assets | $ 57,642,641 | $ 55,576,515 | $ 51,814,677 | $ 2,066,126 | 3.72% |
| **Liabilities** | | | | | |
| **Current Liabilities** | $ 4,289,105 | $ 6,158,900 | $ 6,918,791 | $ (1,869,795) | -30.36% |
| **Net Position** | | | | | |
| Net investment in capital assets | 20,327,671 | 20,842,761 | 19,756,795 | (515,090) | -2.47% |
| Restricted | 1,832,405 | 1,852,501 | 1,847,633 | (20,096) | -1.08% |
| Unrestricted | 31,193,460 | 26,722,353 | 23,291,458 | 4,471,107 | 16.73% |
| Total net position | 53,353,536 | 49,417,615 | 44,895,886 | 3,935,921 | 7.96% |
| Total liabilities and net position | $ 57,642,641 | $ 55,576,515 | $ 51,814,677 | $ 2,066,126 | 3.72% |

The primary change in the Hospital's balance sheet relates to the increase in long-term investments and positive operating results which contributed to the 7.96 percent change in net position for 2013 compared to a 10.07 percent change for 2012 and a change of 3.67 percent for 2011.

### *Table 2: Operating Results and Changes in Net Assets*

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net position of the Hospital for the years ended December 31, 2013, 2012 and 2011.

| | Year Ended December 31 | | | 2013/2012 Change | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | Amount | Percent |
| **Operating Revenue** | | | | | |
| Net patient service revenue | $ 35,847,281 | $ 32,445,104 | $ 25,530,850 | $ 3,402,177 | 10.49% |
| Other operating revenue | 633,832 | 680,180 | 278,733 | (46,348) | -6.81% |
| Total operating revenue | 36,481,113 | 33,125,284 | 25,809,583 | 3,355,829 | 10.13% |
| **Operating Expenses** | | | | | |
| Salaries and wages | 10,980,084 | 10,457,282 | 9,492,508 | 522,802 | 5.00% |
| Employee benefits and payroll taxes | 3,374,355 | 3,187,987 | 3,021,689 | 186,368 | 5.85% |
| Supplies and other | 8,252,301 | 6,812,984 | 4,722,055 | 1,439,317 | 21.13% |
| Purchased services and professional fees | 7,636,375 | 6,651,711 | 5,511,268 | 984,664 | 14.80% |
| Insurance | 187,332 | 302,645 | 395,103 | (115,313) | -38.10% |
| Depreciation and amortization | 2,373,722 | 2,203,226 | 1,641,396 | 170,496 | 7.74% |
| Total operating expenses | 32,804,169 | 29,615,835 | 24,784,019 | 3,188,334 | 10.77% |
| **Operating Income** | 3,676,944 | 3,509,449 | 1,025,564 | 167,495 | 4.77% |
| **Nonoperating Revenue** | | | | | |
| Interest income | 95,910 | 133,513 | 337,185 | (37,603) | -28.16% |
| Contributions and other income | 163,067 | 878,767 | 226,660 | (715,700) | -81.44% |
| Total nonoperating revenue | 258,977 | 1,012,280 | 563,845 | (753,303) | -74.42% |
| **Increase in Net Position** | 3,935,921 | 4,521,729 | 1,589,409 | (585,808) | -12.96% |
| **Net Position, Beginning of Year** | 49,417,615 | 44,895,886 | 43,306,477 | 4,521,729 | 10.07% |
| **Net Position, End of Year** | $ 53,353,536 | $ 49,417,615 | $ 44,895,886 | $ 3,935,921 | 7.96% |

### *Operating Income*

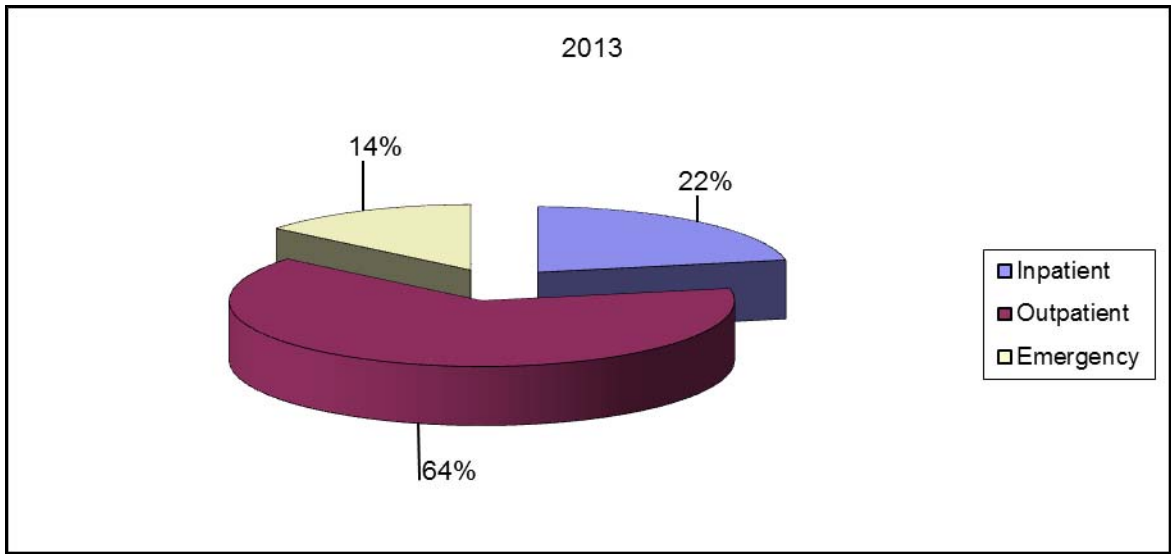
Operating revenue includes all transactions that result in the sales and/or receipts from goods and services, such as inpatient services, outpatient services, physician offices, and the cafeteria.

Operating revenue changes were a result of the following factors:

- Gross patient revenue is reduced by revenue deductions. These deductions are accounts that are uncollectible or the amounts not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, Medical Mutual, and commercial carriers. These revenue deductions for 2013 are 51.86 percent as a percentage of gross revenue and were 51.40 and 53.40 percent in 2012 and 2011, respectively. Net patient service revenue increased 10.49 percent. The increase in revenue deductions is attributable to an increase in charges as a result of increases in patient volumes.

- Other operating revenue decreased 6.81 percent for 2013 due to fluctuations in non-patient services. Included in other operating revenue is revenue associated with the Hospital achieving meaningful use under the Medicaid electronic health records meaningful use incentive program. In 2012, other operating revenue increased 144.03 percent and increased in 2011 by 13.54 percent.

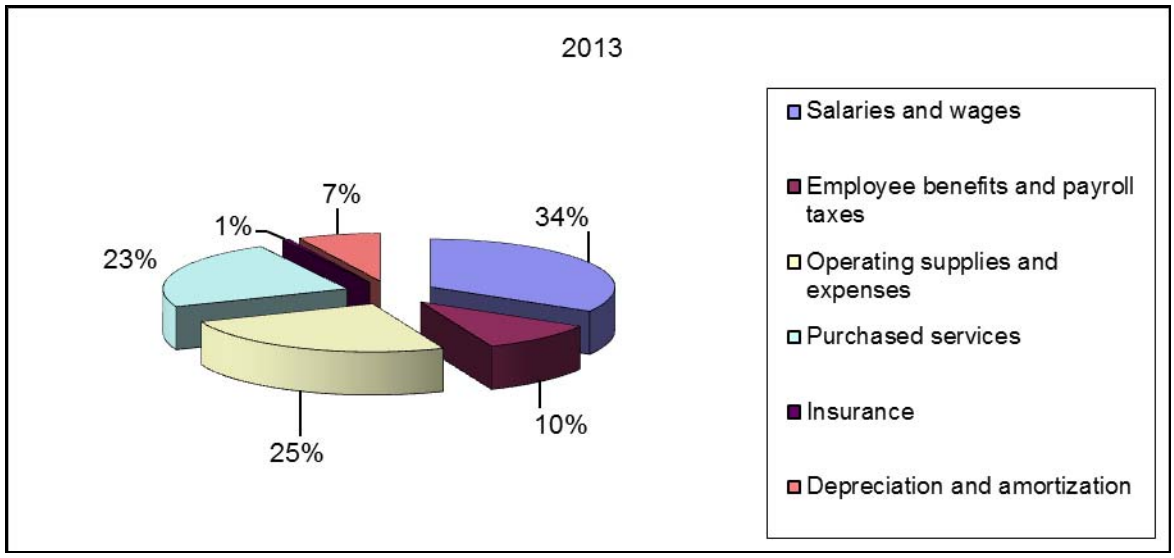
- The following is a graphic illustration of operating revenue by source:



### Operating Expenses

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

- Salaries and wages costs increased 5.00 percent, due in part to additional staffing due to higher volumes and annual salary adjustments. Salary costs increased 10.16 percent for 2012 and increased 7.42 percent for 2011.
- Employee benefit and payroll tax costs increased 5.85 percent, due in part to increases in Ohio Public Employees Retirement System (OPERS) premiums as a result of additional salary costs. Benefits increased 5.50 percent for 2012 and increased 9.76 percent for 2011.
- Supplies increased 21.13 percent due primarily to increased patient supplies for Oncology, Pharmacy and Surgery as a result of increased patient volumes and other ancillary services. For 2012, supplies increased 44.28 percent and increased by 3.35 percent for 2011.
- Purchased services increased 14.80 percent, primarily due to the increased professional fees for Physician Services, Emergency Department and Physical Therapy and fluctuations in utility costs as a result of inclement weather in 2013. Purchased services costs increased by 20.69 percent for 2012 and decreased .49 percent for 2011.
- Insurance costs decreased 38.10 percent, due in part to continued positive claims experience in 2013 and lower overall insurance premiums. Insurance costs decreased 23.40 percent for 2012 and decreased 3.97 percent for 2011.
- The following is a graphic illustration of operating expenses by type:



### *Nonoperating Revenue and Expenses*

Nonoperating revenues and expenses are all sources and uses that are primarily non-exchange in nature. They consist primarily of investment income and contributions.

There was a decrease in nonoperating revenue in 2013 due to one-time contributions and grants received in 2012 for a building addition and renovation project.

### *The Hospital's Cash Flows*

Another way to assess the financial health of a hospital is to look at the statement of cash flows.

Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps assess:

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

| | Year Ended December 31 | | | 2013/2012 Change Increase |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | (Decrease) |
| **Cash Provided by (Used in)** | | | | |
| Operating activities | $ 4,967,808 | $ 4,657,892 | $ 3,325,542 | $ 309,916 |
| Capital and noncapital related financing activities | (1,700,570) | (4,045,545) | (11,023,306) | 2,344,975 |
| Investing activities | (943,992) | 508,501 | 1,567,411 | (1,452,493) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 2,323,246 | 1,120,848 | (6,130,353) | 1,202,398 |
| **Cash and Cash Equivalents, Beginning of Year** | 10,307,557 | 9,186,709 | 15,317,062 | 1,120,848 |
| **Cash and Cash Equivalents, End of Year** | $ 12,630,803 | $ 10,307,557 | $ 9,186,709 | $ 2,323,246 |

The Hospital's liquidity changed during the year. The following discussion amplifies the overview of cash flows presented above:

Cash provided by operating activities increased $309,916 over the prior year. This is a result of increases in patient volumes and other operating receipts offset by increased payments to suppliers, building contractors and employees. Cash from operating activities increased $1,332,250 for 2012 and decreased $33,740 for 2011.

Capital purchases, net of grants and contributions were $1,700,570. Net capital purchases for 2012 were $4,045,545 and for 2011 they were $11,023,306.

Investing activities used cash of $943,992 for 2013. Investment activities provided cash of $508,501 and $1,567,411 for 2012 and 2011, respectively.

### Capital Assets

In October 2010, the Hospital began an extensive building program that expanded the Emergency Department and improved access to outpatient services. The building program was completed in the spring of 2012. In addition, the Hospital purchased and installed equipment and services related to the expansion as well as preparation related to achievement of meaningful use.

At December 31, 2013, the Hospital had $39,240,404 invested in capital assets, which was netted against accumulated depreciation of $18,912,733. Capital assets for 2012 and 2011 were $38,202,026 and $35,303,610, respectively. Depreciation and amortization totaled $2,373,722 for the current year compared to $2,203,226 for 2012 and $1,641,396 for 2011. Capital assets for the past three years are detailed below:

| | Year Ended December 31 | | | 2013/2012 Change Increase |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | (Decrease) |
| Land | $ 45,000 | $ 45,000 | $ 45,000 | $ - |
| Land improvements | 1,070,492 | 1,045,835 | 277,104 | 24,657 |
| Buildings and improvements | 21,556,947 | 21,542,066 | 8,832,647 | 14,881 |
| Major movable equipment | 16,567,965 | 15,569,125 | 13,668,677 | 998,840 |
| Construction in progress | - | - | 12,480,182 | - |
| Total | $ 39,240,404 | $ 38,202,026 | $ 35,303,610 | $ 1,038,378 |

### Debt

For the years ended December 31, 2013, 2012 and 2011, the Hospital had no outstanding debt.

Although the Hospital has no debt obligations, it has in the past made strides to pay it down and has done so in alignment with its prescribed debt schedules. The Hospital completed the building program without securing any new debt obligations. The program was funded through operations, grants and community support.

### *Other Economic Factors*

The economic position of the Hospital is closely tied to that of the local medical staff. The Hospital continually works to maintain an appropriate number of physicians in the community to ensure that the medical needs of the public are met and to help maintain the financial viability of the Hospital. The physician practices started in 2011 continue to grow as they see additional patients. The building program, including a new Emergency Department and expanded outpatient services, was completed in 2012. Much of the Hospital reimbursement is limited by federal and state mandates. Effective March 2005, the Hospital obtained critical access status from the Medicare program. The Hospital is reimbursed the reasonable cost for Medicare services provided to beneficiaries. The Hospital's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of service. In addition, the Board of Governors approved an average increase of 3 percent in the charge structure for the upcoming fiscal year.

### *Contacting the Hospital's Financial Management*

This financial report is intended to provide our member townships with a general overview of the Hospital's finances and to show the Hospital's accountability for the funds over which it has stewardship. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer.

Alan H. Yeates
Chief Financial Officer

# Wyandot Memorial Hospital

## Balance Sheets
## December 31, 2013 and 2012

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Hospital | Component | Hospital | Component |
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 12,171,237 | $ 294,814 | $ 9,823,671 | $ 355,039 |
| Short-term investments | 9,274,799 | 130,048 | 13,173,882 | 461,394 |
| Patient accounts receivable, net of allowance; 2013 - $1,675,000 2012 - $2,075,000 | 4,308,747 | - | 4,700,418 | - |
| Inventory | 607,426 | - | 721,590 | - |
| Prepaid expenses and other | 587,895 | - | 863,992 | - |
| Total current assets | 26,950,104 | 424,862 | 29,283,553 | 816,433 |
| **Noncurrent Cash and Investments** | | | | |
| Assets limited as to use | 1,832,405 | - | 1,852,501 | - |
| Long-term investments | 8,532,461 | 1,004,057 | 3,597,700 | 544,272 |
| Total noncurrent cash and investments | 10,364,866 | 1,004,057 | 5,450,201 | 544,272 |
| **Capital Assets, Net** | 20,327,671 | - | 20,842,761 | - |
| Total assets | $ 57,642,641 | $ 1,428,919 | $ 55,576,515 | $ 1,360,705 |
| **Liabilities and Net Position** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable | $ 1,458,843 | $ - | $ 1,005,574 | $ - |
| Accrued compensated absences | 914,453 | - | 921,600 | - |
| Accrued expenses and other | 1,599,975 | - | 1,585,413 | - |
| Estimated amounts due to third-party payers | 315,834 | - | 2,646,313 | - |
| Total current liabilities | 4,289,105 | - | 6,158,900 | - |
| **Net Position** | | | | |
| Net investment in capital assets | 20,327,671 | - | 20,842,761 | - |
| Restricted | | | | |
| Nonexpendable permanent endowments | 15,000 | - | 15,000 | - |
| Expendable for capital acquisitions | 1,817,405 | - | 1,837,501 | - |
| Unrestricted | 31,193,460 | 1,428,919 | 26,722,353 | 1,360,705 |
| Total net position | 53,353,536 | 1,428,919 | 49,417,615 | 1,360,705 |
| Total liabilities and net position | $ 57,642,641 | $ 1,428,919 | $ 55,576,515 | $ 1,360,705 |

# Wyandot Memorial Hospital

## Statements of Revenue, Expenses and Changes in Net Position

## Years Ended December 31, 2013 and 2012

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Hospital | Component | Hospital | Component |
| **Operating Revenue** | | | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2013 - $1,849,017 and 2012 - $2,172,390 | $ 35,847,281 | $ - | $ 32,445,104 | $ - |
| Other | 633,832 | - | 680,180 | - |
| Total operating revenue | 36,481,113 | - | 33,125,284 | - |
| **Operating Expenses** | | | | |
| Salaries and wages | 10,980,084 | - | 10,457,282 | - |
| Employee benefits | 3,374,355 | - | 3,187,987 | - |
| Purchased services and professional fees | 7,636,375 | - | 6,651,711 | - |
| Supplies and other | 8,252,301 | 30,206 | 6,812,984 | 31,602 |
| Insurance | 187,332 | - | 302,645 | - |
| Depreciation and amortization | 2,373,722 | - | 2,203,226 | - |
| Total operating expenses | 32,804,169 | 30,206 | 29,615,835 | 31,602 |
| **Operating Income (Loss)** | 3,676,944 | (30,206) | 3,509,449 | (31,602) |
| **Nonoperating Revenue** | | | | |
| Interest income | 95,910 | 37,945 | 133,513 | 25,570 |
| Noncapital grants and gifts | 163,067 | 60,475 | 878,767 | (735,189) |
| Total nonoperating revenue (expenses) | 258,977 | 98,420 | 1,012,280 | (709,619) |
| **Increase (Decrease) in Net Position** | 3,935,921 | 68,214 | 4,521,729 | (741,221) |
| **Net Position, Beginning of Year** | 49,417,615 | 1,360,705 | 44,895,886 | 2,101,926 |
| **Net Position, End of Year** | $ 53,353,536 | $ 1,428,919 | $ 49,417,615 | $ 1,360,705 |

# Wyandot Memorial Hospital

## Statements of Cash Flows
## Years Ended December 31, 2013 and 2012

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Hospital | Component | Hospital | Component |
| **Operating Activities** | | | | |
| Receipts from and on behalf of patients | $ 33,908,473 | $ - | $ 31,241,463 | $ - |
| Payments to suppliers and contractors | (15,617,734) | (30,206) | (13,657,186) | (31,602) |
| Payments to employees | (14,347,024) | - | (13,234,207) | - |
| Other receipts, net | 1,024,093 | - | 307,822 | - |
| Net cash provided by (used in) operating activities | 4,967,808 | (30,206) | 4,657,892 | (31,602) |
| **Noncapital Financing Activities** | | | | |
| Noncapital grants and gifts | 163,067 | 60,475 | 878,767 | (735,189) |
| **Capital and Related Financing Activities** | | | | |
| Purchase of capital assets | (1,863,637) | - | (4,924,312) | - |
| **Investing Activities** | | | | |
| Net change assets limited as to use and investments | (1,039,902) | (128,439) | 374,988 | 138,704 |
| Income on investments | 95,910 | 37,945 | 133,513 | 25,570 |
| Net cash provided by (used in) investing activities | (943,992) | (90,494) | 508,501 | 164,274 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 2,323,246 | (60,225) | 1,120,848 | (602,517) |
| **Cash and Cash Equivalents, Beginning of Year** | 10,307,557 | 355,039 | 9,186,709 | 957,556 |
| **Cash and Cash Equivalents, End of Year** | $ 12,630,803 | $ 294,814 | $ 10,307,557 | $ 355,039 |
| **Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by (Used in) Operating Activities** | | | | |
| Operating income (loss) | $ 3,676,944 | $ (30,206) | $ 3,509,449 | $ (31,602) |
| Depreciation and amortization | 2,373,722 | - | 2,203,226 | - |
| Provision for uncollectible accounts | 1,849,017 | - | 2,172,390 | - |
| Loss on disposal of capital assets | 5,005 | - | 6,049 | - |
| Changes in operating assets and liabilities | | | | |
| Patient accounts receivable | (1,457,346) | - | (3,723,995) | - |
| Inventory | 114,164 | - | (149,988) | - |
| Prepaid expenses and other | 276,097 | - | (228,419) | - |
| Accounts payable | 453,269 | - | 110,154 | - |
| Accrued compensated expenses and other | 7,415 | - | 411,062 | - |
| Estimated amounts due to third-party payers | (2,330,479) | - | 347,964 | - |
| Net cash provided by (used in) operating activities | $ 4,967,808 | $ (30,206) | $ 4,657,892 | $ (31,602) |
| **Reconciliation of Cash and Cash Equivalents to the Balance Sheets** | | | | |
| Cash and cash equivalents in current assets | $ 12,171,237 | $ 294,814 | $ 9,823,671 | $ 355,039 |
| Cash and cash equivalents in investments and assets limited as to use | 459,566 | - | 483,886 | - |
| Total cash and cash equivalents | $ 12,630,803 | $ 294,814 | $ 10,307,557 | $ 355,039 |

# Wyandot Memorial Hospital

## Notes to Financial Statements
## December 31, 2013 and 2012

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations and Reporting Entity*

The accompanying financial statements include the accounts of Wyandot Memorial Hospital and Wyandot Health Foundation, Inc. (collectively, Organization).

Wyandot Memorial Hospital (Hospital), as the primary government and business-type activity, is an acute-care hospital organized in 1950 by residents of Salem, Pitt, Crane and Mifflin Townships. The Hospital is located in Upper Sandusky, Ohio and is operated by a joint township board of directors made up of 12 members. This board elects one member for the board of governors from each township and three members are elected at large from the district, of which one should be a medical doctor. The Board of Governors consists of a total of seven members who oversee the daily operations of the Hospital. The Hospital was formed under the provisions of the Ohio Revised Code.

Wyandot Health Foundation, Inc. (Foundation) was established on June 10, 1985, per authority of the Ohio Revised Code. The Foundation is a legally separate, tax-exempt entity that raises funds on behalf of the Hospital. The Foundation is not a part of the primary government of the Hospital but, due to its relationship with the Hospital, it is discretely presented as a component unit within the Hospital's financial statements. The Board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

### *Basis of Accounting and Presentation*

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenue, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenue and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position, if applicable, when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

### *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.

### *Cash Equivalents*

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

### *Investments, Investment Income and Assets Limited as to Use*

Investments consist of certificates of deposit, money market accounts and commercial and governmental bonds, which are stated at market value. Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Assets limited as to use include (1) assets held by trustees, (2) assets restricted by donors and (3) assets set aside by the Board of Governors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

### *Patient Accounts Receivable*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### *Inventory*

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

### *Capital Assets*

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

| | |
|---|---|
| Land improvements | 5-25 years |
| Buildings and building improvements | 15-40 years |
| Building service equipment | 5-20 years |
| Major moveable equipment | 3-25 years |

### *Compensated Absences*

Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service. Employees also earn holiday and sick leave benefits at a Hospital-determined rate for all employees. Employees may earn up to 64 hours of holiday time per year and may accumulate up to 128 hours of such time. Employees may earn up to 80 hours of sick time per year. Employees may sell a portion of their sick leave balance back to the Hospital provided their minimum balance is at least 240 hours after the transaction. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-quarter of the accumulated balance calculated at the employee's base pay rate as of the retirement date. Salaried employees also earn compensatory time for any hours worked in excess of eight hours in one day, or 80 hours in one pay period, at the rate of time and one-half. Compensatory time may be accumulated up to a maximum of 80 hours.

### *Net Position*

Net position of the Organization is classified in four components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Organization, such as permanent endowments. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

### *Charity Care*

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital’s direct and indirect costs for services furnished under its charity care policy aggregated to approximately $404,000 and $410,000 in 2013 and 2012, respectively. The Hospital received approximately $230,000 and $211,000 in 2013 and 2012, respectively, from a state of Ohio uncompensated care fund to subsidize charity services provided under its charity care policy and is included in net patient service revenue. The Hospital also paid approximately $150,000 per year into the fund during 2013 and 2012.

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

### *Income Taxes*

As an instrumentality of a political subdivision of the state of Ohio, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt under Section 501(c) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

### *Risk Management*

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

### *Litigation*

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

### *Electronic Health Records Incentive Program*

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized incentive payment revenue received for qualified EHR technology expenditures during 2013, which was the period during which management was reasonably assured meaningful use was achieved for Medicaid and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenue of $225,600, which is included in other operating revenue in the statement of revenue, expenses and change in net position as of the year ended December 31, 2013.

### *Subsequent Events*

Subsequent events have been evaluated through the date of Independent Auditor's Report, which is the date the financial statements were issued.

### *Net Patient Service Revenue*

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. These payment arrangements include:

*Medicare*. Effective March 2005, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Approximately 70% and 72% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid (including Managed Care) programs for both the years ended December 31, 2013 and 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

In 2012, net patient service revenue increased approximately $1,500,000 due to changes in estimates related to calculating contractual allowances. There were no changes in 2013. Net patient service revenue also increased approximately $135,000 and $320,000 due to removal of previously estimated settlement amounts due to third parties based on regulations and guidelines in 2013 and 2012, respectively.

## Note 2: Deposits, Investments and Investment Income

Chapter 135 of the Ohio Uniform Depositor Act authorizes local governmental units to make deposits in any national bank located in the state, subject to inspection by the superintendent of financial institutions, as eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States Treasury bills, notes, bonds,

or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America, and bonds and other obligations of the state of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer or governing board investing in these instruments.

The Hospital has designated six banks for the deposit of its funds. An investment policy has not been filed with the auditor of state on behalf of the Hospital. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

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

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

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

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

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

The Hospital'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 Organization's deposits may not be returned to it. The Organization's deposit policy for custodial credit risk meets the compliance requirements of the provisions of state law. At December 31, 2013 and 2012, all of the Hospital's bank deposits (certificates of deposit, checking, and savings accounts), which were approximately $15,620,000 and $14,182,000, respectively, were uninsured and collateralized by various securities; the component unit had approximately $54,000 and $56,000 at December 31, 2013 and 2012, respectively, of bank deposits that were uninsured and uncollateralized. The Organization believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. However, since all of the Organization's bank deposits are collateralized, the Organization believes it has maintained an acceptable risk level at these institutions.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Organization's policy for custodial credit risk meets the compliance requirements of the provisions of state law. At December 31, 2013 and 2012, the following investment securities at the component unit were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the component unit's name:

| Type of Investment | | Carrying Value | How Held |
|---|---|---|---|
| December 31, 2013 | | | |
| U.S. Government agency bonds | $ | 1,070 | Counterparty |
| December 31, 2012 | | | |
| U.S. Government agency bonds | $ | 2,180 | Counterparty |

**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 Organization's investment policy addresses interest rate risk and meets the compliance requirements of the provisions of state law. At the end of the year, the average maturities of investments at the component unit are as follows:

| Investment | Fair Value | Weighted Average Maturity |
|---|---|---|
| December 31, 2013 | | |
| U.S. Government agency bonds | $ 1,070 | 18.14 years |
| December 31, 2012 | | |
| U.S. Government agency bonds | $ 2,180 | 19.14 years |

**Credit Risk**

The Organization's investment policy addresses credit risk and meets the compliance requirements of the provisions of state law. At the end of the year, the credit quality ratings of debt securities (other than the U.S. Government) held at the component unit are as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---|---|---|---|
| December 31, 2013 | | | |
| U.S. Government agency bonds | $ 1,070 | AAA | Standard & Poor's |
| December 31, 2012 | | | |
| U.S. Government agency bonds | $ 2,180 | AAA | Standard & Poor's |

### *Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the balance sheets at December 31 as follows:

| | 2013 | 2012 |
|---|---|---|
| Carrying value | | |
| Cash and cash equivalents | $ 12,925,617 | $10,662,596 |
| Certificates of deposit | 20,313,134 | 19,143,683 |
| U.S. Government agency bonds | 1,070 | 2,180 |
| | $ 33,239,821 | $29,808,459 |

| | 2013 | 2012 |
|---|---|---|
| Included in the following balance sheet captions | | |
| Hospital | | |
| Cash and cash equivalents | $ 12,171,237 | $ 9,823,671 |
| Short-term investments | 9,274,799 | 13,173,882 |
| Assets limited as to use | 1,832,405 | 1,852,501 |
| Long-term investments | 8,532,461 | 3,597,700 |
| Component Unit | | |
| Cash and cash equivalents | 294,814 | 355,039 |
| Short-term investments | 130,048 | 461,394 |
| Long-term investments | 1,004,057 | 544,272 |
| | $ 33,239,821 | $ 29,808,459 |

***Investment Income***

Investment income for the years ended December 31 consisted of:

| | 2013 | 2012 |
|---|---|---|
| Hospital interest and dividend income | $ 95,910 | $ 133,513 |
| Component unit interest and dividend income | 37,945 | 25,570 |
| Interest income | $ 133,855 | $ 159,083 |

## Note 3: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

| | 2013 | 2012 |
|---|---|---|
| Patient accounts receivable | $ 12,361,730 | $ 11,302,617 |
| Less | | |
| Allowance for uncollectible amounts | 1,675,000 | 2,075,000 |
| Allowance for contractual adjustments | 6,377,983 | 4,527,199 |
| Patient accounts receivable, net | $ 4,308,747 | $ 4,700,418 |

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

| | Percent | |
|---|---|---|
| | 2013 | 2012 |
| Medicare | 42% | 38% |
| Medicaid | 9% | 11% |
| Commercial insurance and HMOs | 28% | 29% |
| Self-pay | 21% | 22% |
| | 100% | 100% |

## Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

| | 2013 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions/ Transfers | Disposals | Ending Balance |
| Land | $ 45,000 | $ - | $ - | $ 45,000 |
| Land improvements | 1,045,835 | 24,657 | - | 1,070,492 |
| Building and building improvements | 20,612,595 | 13,547 | (11,961) | 20,614,181 |
| Building service equipment | 929,471 | 13,295 | - | 942,766 |
| Major moveable equipment | 15,569,125 | 1,812,138 | (813,298) | 16,567,965 |
| | 38,202,026 | 1,863,637 | (825,259) | 39,240,404 |
| Less accumulated depreciation | | | | |
| Land improvements | 239,279 | 69,800 | | 309,079 |
| Building and building improvements | 6,285,143 | 784,832 | (11,961) | 7,058,014 |
| Building service equipment | 771,046 | 12,287 | | 783,333 |
| Major moveable equipment | 10,063,797 | 1,506,803 | (808,293) | 10,762,307 |
| | 17,359,265 | 2,373,722 | (820,254) | 18,912,733 |
| Capital assets, net | $ 20,842,761 | $ (510,085) | $ (5,005) | $ 20,327,671 |

| | 2012 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions/ Transfers | Disposals | Ending Balance |
| Land | $ 45,000 | $ - | $ - | $ 45,000 |
| Land improvements | 277,104 | 768,731 | - | 1,045,835 |
| Building and building improvements | 8,000,752 | 12,676,132 | (64,289) | 20,612,595 |
| Building service equipment | 831,895 | 97,576 | - | 929,471 |
| Major moveable equipment | 13,668,677 | 2,232,984 | (332,536) | 15,569,125 |
| Construction in progress | 12,480,182 | (12,480,182) | - | - |
| | $35,303,610 | 3,295,241 | (396,825) | 38,202,026 |
| Less accumulated depreciation | | | | |
| Land improvements | 200,190 | 39,089 | | 239,279 |
| Building and building improvements | 5,626,580 | 722,852 | (64,289) | 6,285,143 |
| Building service equipment | 761,844 | 9,202 | | 771,046 |
| Major moveable equipment | 8,958,201 | 1,432,083 | (326,487) | 10,063,797 |
| | 15,546,815 | 2,203,226 | (390,776) | 17,359,265 |
| Capital assets, net | $ 19,756,795 | $ 1,092,015 | $ (6,049) | $ 20,842,761 |

## Note 5: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

## Note 6: Accrued Liabilities and Other

Accrued expenses included in current liabilities at December 31 consisted of:

| | 2013 | 2012 |
|---|---|---|
| Compensation and related items | $ 704,904 | $ 672,154 |
| Pension | 337,280 | 252,957 |
| Insurance premiums and accruals | 557,791 | 660,302 |
| | $ 1,599,975 | $ 1,585,413 |

## Note 7: Defined Benefit Pension Plan

***Pension Benefits –*** All employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers three pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan.
2. The Member-Directed (MD) Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multi-employer defined benefit plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Members of the MD Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, copies of which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642; or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, 2012 and 2011, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2013, 2012 and 2011 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were approximately $1,485,000, $1,453,000 and $1,290,000, respectively, for 2013, 2012 and 2011 which equaled 100% of the required contributions for each year.

***Post-employment Benefits –*** OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, 2012 and 2011, local employer units contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contribution allocated to for members in the Traditional Plan and the Combined Plan was 1% during 2013. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund post-employment benefits for 2013, 2012 and 2011 was approximately $106,000, $415,000 and $369,000, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

## Note 8: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) substantially reforms the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. It also requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the

expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. The state of Ohio has currently indicated it will participate in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Association's net patient service revenue. Additionally, it is possible the Association will experience payment delays and other operational challenges during PPACA's implementation.

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# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Governors
Wyandot Memorial Hospital
Upper Sandusky, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wyandot Memorial Hospital (Hospital), which comprise the balance sheet as of December 31, 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2014. The financial statements of Wyandot Health Foundation, Inc., a discretely presented component unit, which are included in the Hospital's financial statements, were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. 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.

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 deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

***Compliance***

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Other Matters***

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Fort Wayne, Indiana
May 15, 2014

# Wyandot Memorial Hospital

## Schedule of Findings and Responses
## Year Ended December 31, 2013

| Reference Number | Finding | Status |
|---|---|---|
| None | | |

# Wyandot Memorial Hospital

## Summary Schedule of Prior Audit Findings
## Year Ended December 31, 2013

| Reference Number | Finding | Status |
|---|---|---|
| 2012-001 | **Criteria or Specific Requirement –** The Hospital should review accounts receivable estimates, including contractual allowance and bad debt estimates, in conjunction with cash receipts on estimated net receivables.<br><br>**Condition –** The Hospital was not performing a detailed review of actual cash receipts on estimated balances.<br><br>**Context –** Based on evaluation of subsequent receipts on net patient account balances post-December 31, 2012, more cash was received than estimated based on management's estimate.<br><br>**Effect –** An audit adjustment was recorded to reduce estimated contractual allowances by $1,500,000.<br><br>**Cause –** The analysis performed by management does not include a lookback of actual payments on net accounts receivable balances resulting in accounts receivable being undervalued. | Resolved |

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# Dave Yost • Auditor of State

**WYANDOT MEMORIAL HOSPITAL**

**WYANDOT 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 26, 2014**

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