

Wyandot Memorial Hospital

Auditor's Report and Financial Statements

December 31, 2014 and 2013



Dave Yost • Auditor of State

Board of Directors
Wyandot Memorial Hospital
885 North Sandusky Avenue
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, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 25, 2015

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Wyandot Memorial Hospital

December 31, 2014 and 2013

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Independent Auditor's Report

Board of Governors
Wyandot Memorial Hospital
Upper Sandusky, Ohio

Report on the Financial Statements

We have audited the accompanying basic financial statements of Wyandot Memorial Hospital (Hospital) and its discretely presented component unit, Wyandot Health Foundation, Inc., which are comprised of the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

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., a discretely presented component unit of the Hospital, 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 Wyandot Memorial Hospital and its discretely presented component unit as of December 31, 2014 and 2013, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 basic financial statements. Such information, although not 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 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 basic financial statements and other knowledge we obtained during our audit of the basic 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 21, 2015, 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 21, 2015

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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, 2014, 2013 and 2012. 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, 2014. Current assets increased \$2,559,489, or 9.50 percent, assets limited as to use increased \$4,130,409, or 225.41 percent, and general long-term investments increased \$550,891 or 6.46 percent, from the prior year. These increases are primarily due to an increase in accounts receivable as a result of the Hospital converting to a new accounts receivable software and a donation of \$4,165,604 restricted for the permanent improvement of the Hospital facility. In total, the Hospital's net position increased by \$5,391,905, or 10.11 percent, from the previous year. The increase in net position for 2013 was 7.96 percent, and for 2012 the increase was 10.07 percent. The increased net position in 2014 was primarily the result of a donation to the Hospital. In 2013, the increase in 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, 2014, 2013 and 2012:

	Year Ended December 31		
	2014	2013	2012
Net Position			
Net investment in capital assets	\$ 19,021,179	\$ 20,327,671	\$ 20,842,761
Restricted	5,962,814	1,832,405	1,852,501
Unrestricted	33,761,448	31,193,460	26,722,353

For the year ended December 31, 2014, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$5,391,905. The increase for 2013 and 2012 was \$3,935,921 and \$4,521,729, respectively.

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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			2014/2013 Change	
	2014	2013	2012	Amount	Percent
Assets					
Current assets	\$ 29,509,593	\$ 26,950,104	\$ 29,283,553	\$ 2,559,489	9.50%
Assets limited as to use	5,962,814	1,832,405	1,852,501	4,130,409	225.41%
General long-term investments	9,083,352	8,532,461	3,597,700	550,891	6.46%
Capital assets	19,021,179	20,327,671	20,842,761	(1,306,492)	-6.43%
Total assets	<u>\$ 63,576,938</u>	<u>\$ 57,642,641</u>	<u>\$ 55,576,515</u>	<u>\$ 5,934,297</u>	10.29%
Liabilities					
Current Liabilities	<u>\$ 4,831,497</u>	<u>\$ 4,289,105</u>	<u>\$ 6,158,900</u>	<u>\$ 542,392</u>	12.65%
Net Position					
Net investment in capital assets	19,021,179	20,327,671	20,842,761	(1,306,492)	-6.43%
Restricted	5,962,814	1,832,405	1,852,501	4,130,409	225.41%
Unrestricted	33,761,448	31,193,460	26,722,353	2,567,988	8.23%
Total net position	<u>58,745,441</u>	<u>53,353,536</u>	<u>49,417,615</u>	<u>5,391,905</u>	10.11%
Total liabilities and net position	<u>\$ 63,576,938</u>	<u>\$ 57,642,641</u>	<u>\$ 55,576,515</u>	<u>\$ 5,934,297</u>	10.29%

The primary change in the Hospital's balance sheet relates to the increase in assets limited as to use and positive operating results which contributed to the 10.11 percent change in net position for 2014 compared to a 7.96 percent change for 2013, and a change of 10.07 percent for 2012.

Wyandot Memorial Hospital
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

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, 2014, 2013 and 2012.

	Year Ended December 31			2014/2013 Change	
	2014	2013	2012	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 36,320,607	\$ 35,847,281	\$ 32,445,104	\$ 473,326	1.32%
Other operating revenue	1,267,654	633,755	680,180	633,899	100.02%
Total operating revenue	<u>37,588,261</u>	<u>36,481,036</u>	<u>33,125,284</u>	<u>1,107,225</u>	3.04%
Operating Expenses					
Salaries and wages	12,391,105	10,980,092	10,457,282	1,411,013	12.85%
Employee benefits and payroll taxes	3,836,158	3,374,347	3,187,987	461,811	13.69%
Supplies and other Purchased services	8,992,655	8,252,224	6,812,984	740,431	8.97%
and professional fees	8,334,583	7,636,375	6,651,711	698,208	9.14%
Insurance	395,750	187,332	302,645	208,418	111.26%
Depreciation and amortization	2,557,082	2,373,722	2,203,226	183,360	7.72%
Total operating expenses	<u>36,507,333</u>	<u>32,804,092</u>	<u>29,615,835</u>	<u>3,703,241</u>	11.29%
Operating Income	<u>1,080,928</u>	<u>3,676,944</u>	<u>3,509,449</u>	<u>(2,596,016)</u>	-70.60%
Nonoperating Revenue					
Interest income	98,640	95,910	133,513	2,730	2.85%
Contributions and other income	46,733	163,067	878,767	(116,334)	-71.34%
Total nonoperating revenue	<u>145,373</u>	<u>258,977</u>	<u>1,012,280</u>	<u>(113,604)</u>	-43.87%
Excess of Revenues Over Expenses Before Capital Gifts	1,226,301	3,935,921	4,521,729	(2,709,620)	-68.84%
Capital Gifts	<u>4,165,604</u>	<u>-</u>	<u>-</u>	<u>4,165,604</u>	100.00%
Increase in Net Position	5,391,905	3,935,921	4,521,729	1,455,984	36.99%
Net Position, Beginning of Year	<u>53,353,536</u>	<u>49,417,615</u>	<u>44,895,886</u>	<u>3,935,921</u>	7.96%
Net Position, End of Year	<u>\$ 58,745,441</u>	<u>\$ 53,353,536</u>	<u>\$ 49,417,615</u>	<u>\$ 5,391,905</u>	10.11%

Wyandot Memorial Hospital

Management's Discussion and Analysis

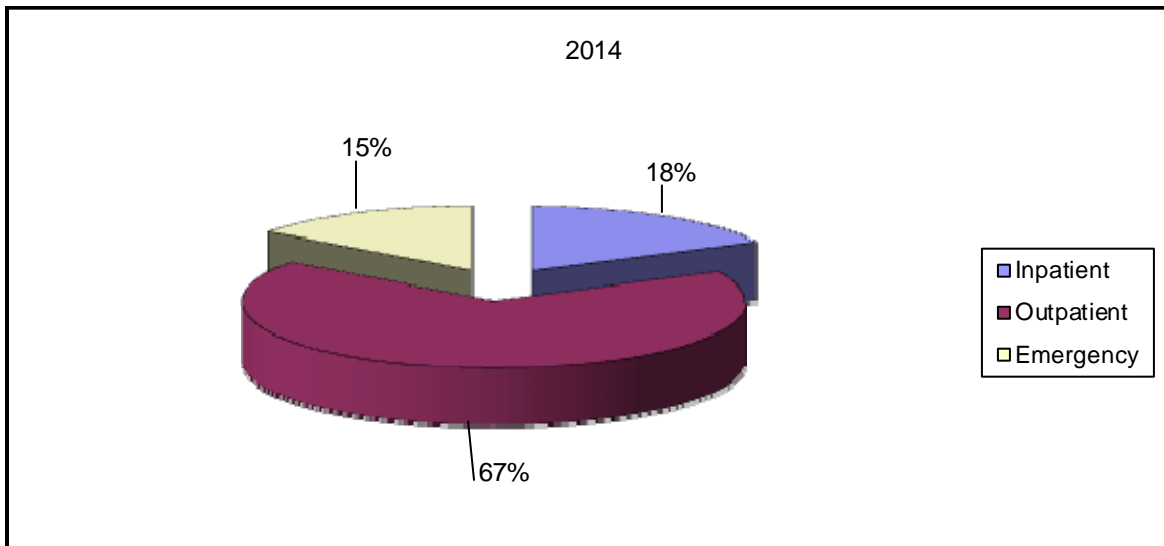
Years Ended December 31, 2014 and 2013

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 2014 were 53.63 percent as a percentage of gross revenue and were 51.86 and 51.40 percent in 2013 and 2012, respectively. Net patient service revenue increased 1.32 percent. The increase in revenue deductions is attributable to sequestration and changes in payor mix as a result of Medicaid expansion in Ohio.
- Other operating revenue increased 100.02 percent for 2014 due to fluctuations in non-patient services. Included in other operating revenue is revenue associated with the pharmacy and 340(b) program and revenue from the Medicare and Medicaid meaningful use programs. In 2013, other operating revenue decreased 6.81 percent and increased in 2012 by 144.03 percent.
- The following is a graphic illustration of operating revenue by source:



Wyandot Memorial Hospital

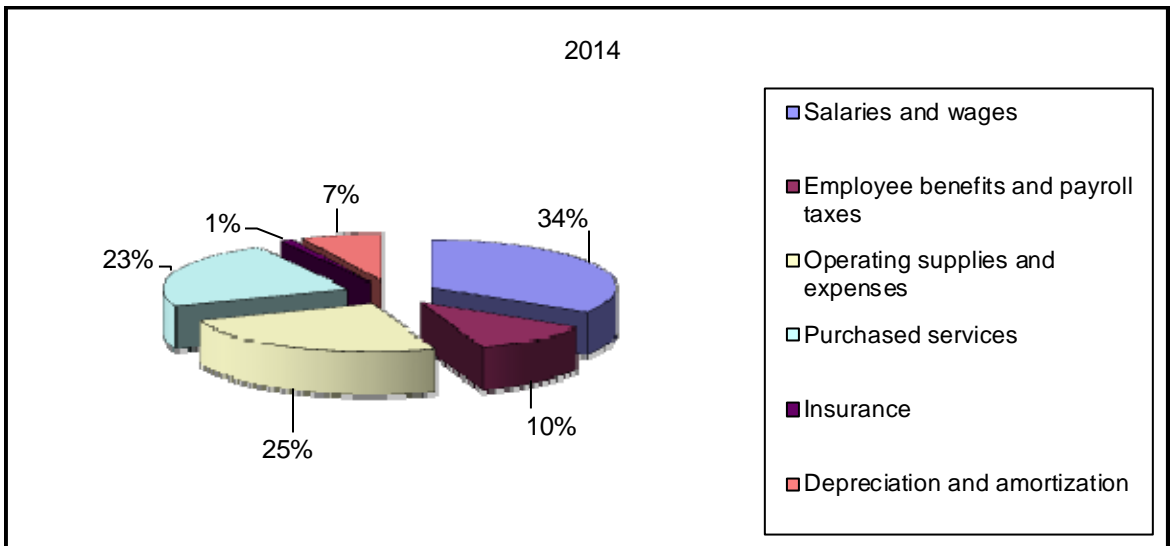
Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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 12.85 percent, due in part to additional staffing as a result of the accounts receivable system conversion, fluctuations in volume, and annual salary adjustments. Salaries and wages costs increased 5.00 percent for 2013 and increased 10.16 percent for 2012.
- Employee benefit and payroll tax costs increased 13.69 percent, due in part to increases in Ohio Public Employees Retirement System (OPERS) premiums as a result of additional salary costs. Benefits increased 5.85 percent for 2013 and increased 5.50 percent for 2012.
- Supplies increased 8.97 percent due primarily to increased patient supplies for Oncology, Pharmacy and Surgery as a result of increased patient volumes and other ancillary services. For 2013, supplies increased 21.12 percent and increased by 44.28 percent for 2012.
- Purchased services increased 9.14 percent, primarily due to the increased professional fees for Physician Services, Emergency Department and Physical Therapy. Purchased services costs increased by 14.80 percent for 2013 and increased 20.69 percent for 2012.
- Insurance costs increased 111.26 percent, primarily due to an increase in insurance premiums related to tail coverage associated with medical malpractice. Insurance costs decreased 38.10 percent for 2013 and decreased 23.40 percent for 2012.
- The following is a graphic illustration of operating expenses by type:



Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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 2014 due to lower noncapital contributions and grants than were received during 2013 and 2012.

Capital Gifts

The Hospital received a gift of \$4,165,604 from the estate of a donor in 2014 to purchase capital assets. There were no capital gifts in 2013 or 2012.

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			2014/2013
	2014	2013	2012	Change Increase (Decrease)
Cash Provided by (Used In)				
Operating activities	\$ (4,272,963)	\$ 4,967,808	\$ 4,657,892	\$ (9,240,771)
Capital and noncapital related financing activities	3,219,080	(1,700,570)	(4,045,545)	4,919,650
Investing activities	(4,466,890)	(943,992)	508,501	(3,522,898)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,520,773)	2,323,246	1,120,848	(7,844,019)
Cash and Cash Equivalents, Beginning of Year	12,630,803	10,307,557	9,186,709	2,323,246
Cash and Cash Equivalents, End of Year	\$ 7,110,030	\$ 12,630,803	\$ 10,307,557	\$ (5,520,773)

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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

Cash provided by operating activities decreased \$9,240,771 over the prior year. This is primarily a result of an increase in accounts receivable related to the implementation of a new computer system in the current year. Cash from operating activities increased \$309,916 for 2013 and increased \$1,332,250 for 2012.

Contributions for acquisition of property and equipment were \$4,165,604. Capital purchases for 2014 were \$946,524, for 2013 were \$1,863,637 and for 2012 they were \$4,924,312.

Investing activities used cash of \$4,466,890 for 2014. Investment activities used cash of \$943,992 in 2013 and provided cash of \$508,501 for 2012.

Capital Assets

In October 2010, the Hospital began an extensive building program that expanded the Emergency Department and improved access to outpatient services. In addition, the Hospital purchased and installed equipment and services related to the expansion as well as preparation related to achievement of meaningful use. The building program was completed in the spring of 2012 with various renovation projects continuing through 2014.

At December 31, 2014, the Hospital had \$40,274,097 invested in capital assets, which was netted against accumulated depreciation of \$21,252,918. Capital assets for 2013 and 2012 were \$39,240,404 and \$38,202,026, respectively. Depreciation and amortization expense totaled \$2,557,082 for the current year compared to \$2,373,722 for 2013 and \$2,203,226 for 2012. Capital assets for the past three years are detailed below:

	Year Ended December 31			Change Increase (Decrease)
	2014	2013	2012	
Land	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
Land improvements	1,088,831	1,070,492	1,045,835	18,339
Buildings and improvements	21,769,556	21,556,947	21,542,066	212,609
Major movable equipment	17,370,710	16,567,965	15,569,125	802,745
Total	<u>\$ 40,274,097</u>	<u>\$ 39,240,404</u>	<u>\$ 38,202,026</u>	<u>\$ 1,033,693</u>

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

Debt

For the years ended December 31, 2014, 2013 and 2012, 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 and continues to complete project renovations and provide capital improvements without securing any new debt obligations. These capital improvements are 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, 2014 and 2013

	December 31, 2014		December 31, 2013	
	Hospital	Component	Hospital	Component
Assets				
Current Assets				
Cash and cash equivalents	\$ 7,021,770	\$ 332,242	\$ 12,171,237	\$ 294,814
Short-term investments	8,787,723	888,354	9,274,799	130,048
Patient accounts receivable, net of allowance; 2014 - \$3,164,000 2013 - \$1,675,000	11,696,949	-	4,308,747	-
Inventory	657,991	-	607,426	-
Prepaid expenses and other	1,345,160	-	587,895	-
Total current assets	<u>29,509,593</u>	<u>1,220,596</u>	<u>26,950,104</u>	<u>424,862</u>
Noncurrent Cash and Investments				
Assets limited as to use	5,962,814	-	1,832,405	-
Long-term investments	9,083,352	247,856	8,532,461	1,004,057
Total noncurrent cash and investments	<u>15,046,166</u>	<u>247,856</u>	<u>10,364,866</u>	<u>1,004,057</u>
Capital Assets, Net	<u>19,021,179</u>	<u>-</u>	<u>20,327,671</u>	<u>-</u>
Total assets	<u>\$ 63,576,938</u>	<u>\$ 1,468,452</u>	<u>\$ 57,642,641</u>	<u>\$ 1,428,919</u>
Liabilities and Net Position				
Current Liabilities				
Accounts payable	\$ 1,279,220	\$ -	\$ 1,458,843	\$ -
Accrued compensated absences	1,037,516	-	914,453	-
Accrued expenses and other	1,890,950	-	1,599,975	-
Estimated amounts due to third-party payers	623,811	-	315,834	-
Total current liabilities	<u>4,831,497</u>	<u>-</u>	<u>4,289,105</u>	<u>-</u>
Net Position				
Net investment in capital assets	19,021,179	-	20,327,671	-
Restricted				
Nonexpendable permanent endowments	15,927	-	15,000	-
Expendable for capital acquisitions	5,946,887	-	1,817,405	-
Unrestricted	33,761,448	1,468,452	31,193,460	1,428,919
Total net position	<u>58,745,441</u>	<u>1,468,452</u>	<u>53,353,536</u>	<u>1,428,919</u>
Total liabilities and net position	<u>\$ 63,576,938</u>	<u>\$ 1,468,452</u>	<u>\$ 57,642,641</u>	<u>\$ 1,428,919</u>

Wyandot Memorial Hospital
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	December 31, 2014		December 31, 2013	
	Hospital	Component	Hospital	Component
Operating Revenue				
Net patient service revenue, net of provision for uncollectible accounts; 2014 - \$1,994,164 and 2013 - \$1,849,017	\$ 36,320,607	\$ -	\$ 35,847,281	\$ -
Other	1,267,654	-	633,755	-
Total operating revenue	<u>37,588,261</u>	<u>-</u>	<u>36,481,036</u>	<u>-</u>
Operating Expenses				
Salaries and wages	12,391,105	-	10,980,092	-
Employee benefits	3,836,158	-	3,374,347	-
Purchased services and professional fees	8,334,583	-	7,636,375	-
Supplies and other	8,992,655	57,007	8,252,224	30,206
Insurance	395,750	-	187,332	-
Depreciation and amortization	2,557,082	-	2,373,722	-
Total operating expenses	<u>36,507,333</u>	<u>57,007</u>	<u>32,804,092</u>	<u>30,206</u>
Operating Income (Loss)	<u>1,080,928</u>	<u>(57,007)</u>	<u>3,676,944</u>	<u>(30,206)</u>
Nonoperating Revenue				
Interest income	98,640	29,211	95,910	37,945
Noncapital grants and gifts	46,733	67,329	163,067	60,475
Total nonoperating revenue	<u>145,373</u>	<u>96,540</u>	<u>258,977</u>	<u>98,420</u>
Excess of Revenues Over Expenses Before Capital Gifts	1,226,301	39,533	3,935,921	68,214
Contributions for Acquisition of Property and Equipment	<u>4,165,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Position	5,391,905	39,533	3,935,921	68,214
Net Position, Beginning of Year	<u>53,353,536</u>	<u>1,428,919</u>	<u>49,417,615</u>	<u>1,360,705</u>
Net Position, End of Year	<u>\$ 58,745,441</u>	<u>\$ 1,468,452</u>	<u>\$ 53,353,536</u>	<u>\$ 1,428,919</u>

Wyandot Memorial Hospital

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	December 31, 2014		December 31, 2013	
	Hospital	Component	Hospital	Component
Operating Activities				
Receipts from and on behalf of patients	\$ 29,240,382	\$ -	\$ 33,908,473	\$ -
Payments to suppliers and contractors	(18,159,944)	(57,007)	(15,617,734)	(30,206)
Payments to employees	(15,813,225)	-	(14,347,024)	-
Other receipts, net	459,824	-	1,024,093	-
Net cash provided by (used in) operating activities	<u>(4,272,963)</u>	<u>(57,007)</u>	<u>4,967,808</u>	<u>(30,206)</u>
Noncapital Financing Activities				
Noncapital grants and gifts	<u>46,733</u>	<u>67,329</u>	<u>163,067</u>	<u>60,475</u>
Capital and Related Financing Activities				
Purchase of capital assets	(993,257)	-	(1,863,637)	-
Contributions for acquisition of property and equipment	4,165,604	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>3,172,347</u>	<u>-</u>	<u>(1,863,637)</u>	<u>-</u>
Investing Activities				
Net change assets limited as to use and investments	(4,565,530)	(2,105)	(1,039,902)	(128,439)
Income on investments	98,640	29,211	95,910	37,945
Net cash provided by (used in) investing activities	<u>(4,466,890)</u>	<u>27,106</u>	<u>(943,992)</u>	<u>(90,494)</u>
Increase (Decrease) in Cash and Cash Equivalents				
	(5,520,773)	37,428	2,323,246	(60,225)
Cash and Cash Equivalents, Beginning of Year				
	<u>12,630,803</u>	<u>294,814</u>	<u>10,307,557</u>	<u>355,039</u>
Cash and Cash Equivalents, End of Year				
	<u>\$ 7,110,030</u>	<u>\$ 332,242</u>	<u>\$ 12,630,803</u>	<u>\$ 294,814</u>
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 1,080,928	\$ (57,007)	\$ 3,676,944	\$ (30,206)
Depreciation and amortization	2,557,082	-	2,373,722	-
Provision for uncollectible accounts	1,994,164	-	1,849,017	-
Loss on disposal of capital assets	15,275	-	5,005	-
Changes in operating assets and liabilities				
Patient accounts receivable	(9,382,366)	-	(1,457,346)	-
Inventory	(50,565)	-	114,164	-
Prepaid expenses and other	(757,265)	-	276,097	-
Accounts payable	(452,231)	-	453,269	-
Accrued compensated expenses and other	414,038	-	7,415	-
Estimated amounts due to third-party payers	307,977	-	(2,330,479)	-
Net cash provided by (used in) operating activities	<u>\$ (4,272,963)</u>	<u>\$ (57,007)</u>	<u>\$ 4,967,808</u>	<u>\$ (30,206)</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents in current assets	\$ 7,021,770	\$ 332,242	\$ 12,171,237	\$ 294,814
Cash and cash equivalents in investments and assets limited as to use	<u>88,260</u>	<u>-</u>	<u>459,566</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 7,110,030</u>	<u>\$ 332,242</u>	<u>\$ 12,630,803</u>	<u>\$ 294,814</u>
Supplemental Cash Flows Information				
Capital asset acquisitions included in accounts payable	\$ (272,608)	\$ -	\$ -	\$ -

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, 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 assets restricted by donors.

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 Hospital 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 Hospital, 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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 \$285,000 and \$404,000 in 2014 and 2013, respectively. The Hospital received approximately \$303,000 and \$230,000 in 2014 and 2013, 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 \$190,000 and \$150,000 into the fund during 2014 and 2013, respectively.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Effective March 1, 2015, the Hospital opted to self-insure related to employee health insurance.

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 approximately \$588,000 and \$226,000, which is included in other operating revenue in the statements of revenue, expenses and changes in net position for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, approximately \$527,000 is included in prepaid expenses and other current assets on the balance sheet.

Subsequent Events

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

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 37% and 39% 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, 2014 and 2013. 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.

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, all of the Hospital's bank deposits (certificates of deposit, checking and savings accounts), which were approximately \$10,201,000 and \$15,620,000, respectively, were uninsured and collateralized by various securities; the component unit had approximately \$35,000 and \$54,000 at December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014		
U.S. Government agency bonds	\$ 1,070	Counterparty
December 31, 2013		
U.S. Government agency bonds	\$ 1,070	Counterparty

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

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, 2014		
U.S. Government agency bonds	\$ 1,070	17.14 years
December 31, 2013		
U.S. Government agency bonds	\$ 1,070	18.14 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, 2014			
U.S. Government agency bonds	\$ 1,070	AA+	Standard & Poor's
December 31, 2013			
U.S. Government agency bonds	\$ 1,070	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, 2014 and 2013 as follows:

	2014	2013
Carrying value		
Cash and cash equivalents	\$ 7,442,272	\$ 12,925,617
Certificates of deposit	24,880,769	20,313,134
U.S. Government agency bonds	1,070	1,070
	<u>\$ 32,324,111</u>	<u>\$33,239,821</u>

Wyandot Memorial Hospital
Notes to Financial Statements
December 31, 2014 and 2013

	2014	2013
Included in the following balance sheet captions		
Hospital		
Cash and cash equivalents	\$ 7,021,770	\$ 12,171,237
Short-term investments	8,787,723	9,274,799
Assets limited as to use	5,962,814	1,832,405
Long-term investments	9,083,352	8,532,461
Component Unit		
Cash and cash equivalents	332,242	294,814
Short-term investments	888,354	130,048
Long-term investments	247,856	1,004,057
	\$ 32,324,111	\$ 33,239,821

Investment Income

Investment income for the years ended December 31 consisted of:

	2014	2013
Hospital interest and dividend income	\$ 98,640	\$ 95,910
Component unit interest and dividend income	29,211	37,945
Interest income	\$ 127,851	\$ 133,855

Note 3: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	2014	2013
Patient accounts receivable	\$ 32,597,068	\$ 12,361,730
Less		
Allowance for uncollectible amounts	3,163,962	1,675,000
Allowance for contractual adjustments	17,736,157	6,377,983
Patient accounts receivable, net	\$ 11,696,949	\$ 4,308,747

Wyandot Memorial Hospital
Notes to Financial Statements
December 31, 2014 and 2013

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	
	2014	2013
Medicare	34%	42%
Medicaid	11%	9%
Commercial insurance and HMOs	49%	28%
Self-pay	6%	21%
	100%	100%

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2014			Ending Balance
	Beginning Balance	Additions/ Transfers	Disposals	
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Land improvements	1,070,492	40,268	(21,929)	1,088,831
Building and building improvements	20,614,181	194,406	(11,497)	20,797,090
Building service equipment	942,766	29,700	-	972,466
Major moveable equipment	16,567,965	1,001,491	(198,746)	17,370,710
	39,240,404	1,265,865	(232,172)	40,274,097
Less accumulated depreciation				
Land improvements	309,079	78,790	(21,929)	365,940
Building and building improvements	7,058,014	784,495	(11,497)	7,831,012
Building service equipment	783,333	12,955	-	796,288
Major moveable equipment	10,762,307	1,680,842	(183,471)	12,259,678
	18,912,733	2,557,082	(216,897)	21,252,918
Capital assets, net	\$ 20,327,671	\$ (1,291,217)	\$ (15,275)	\$ 19,021,179

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2014 and 2013

	2013			Ending Balance
	Beginning Balance	Additions/ Transfers	Disposals	
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
	<u>38,202,026</u>	<u>1,863,637</u>	<u>(825,259)</u>	<u>39,240,404</u>
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
	<u>17,359,265</u>	<u>2,373,722</u>	<u>(820,254)</u>	<u>18,912,733</u>
Capital assets, net	<u>\$ 20,842,761</u>	<u>\$ (510,085)</u>	<u>\$ (5,005)</u>	<u>\$ 20,327,671</u>

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:

	2014	2013
Compensation and related items	\$ 902,311	\$ 704,904
Pension	388,630	337,280
Insurance premiums and accruals	600,009	557,791
	<u>\$ 1,890,950</u>	<u>\$ 1,599,975</u>

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 2014, 2013 and 2012, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2014, 2013 and 2012 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were approximately \$1,690,000, \$1,485,000 and \$1,453,000, respectively, for 2014, 2013 and 2012 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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 2014, 2013 and 2012, 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 2% during 2014. 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 2014, 2013 and 2012 was approximately \$241,000, \$106,000 and \$415,000, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. In September 2012, the OPERS Retirement Board adopted a set of changes to the OPERS health care plan that will allow OPERS to continue offering retirees access to health care coverage.

Note 8: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform 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. Starting in 2014, the legislation 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 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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2014 and 2013

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 it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

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 sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

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 and Other Matters

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*.

Purpose of This Report

The purpose of this report 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 on compliance. This report 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 21, 2015

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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
JULY 9, 2015