

Wyandot Memorial Hospital

Independent Auditor's Report and Financial Statements

December 31, 2015



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, 2015 through December 31, 2015. 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 23, 2016

This page intentionally left blank.

Wyandot Memorial Hospital

December 31, 2015

Contents

Independent Auditor's Report.....	1
--	----------

Management's Discussion and Analysis	3
---	----------

Financial Statements

Balance Sheets.....	11
Statements of Revenue, Expenses and Changes in Net Position.....	12
Statements of Cash Flows	13
Notes to Financial Statements	14

Required Supplementary Information

Schedules of the Hospital's Proportionate Share of the Net Pension Liability and Asset (Ohio Public Employees Retirement System (OPERS))	32
Schedules of the Hospital Contributions (Ohio Public Employees Retirement System (OPERS)).....	33
Notes to Required Supplementary Information.....	34

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 <i>Government Auditing Standards</i>	35
--	-----------

Independent Auditor's Report

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., as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic 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 audit. We conducted our audit 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.

Opinions

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, 2015, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2015 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as 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 audits 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 19, 2016, 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 19, 2016

Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

Management's Discussion and Analysis

The discussion and analysis of Wyandot Memorial Hospital's (Hospital) financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014.

Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis. The information included within the management's discussion and analysis for the year ended December 31, 2014, has not been adjusted for the impact of Governmental Accounting Standards Board (GASB) 68.

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, prior to the adoption of GASB 68 related to net pension liability, continued to improve during the year ended December 31, 2015. Current assets decreased \$1,954,331, or 6.62 percent, assets limited as to use increased \$611,000 or 10.25 percent and general long-term investments increased \$4,616,462 or 50.82 percent from the prior year. These changes in assets are primarily due to a decrease in accounts receivable as a result of the Hospital reducing outstanding accounts receivable that resulted from converting to the new accounts receivable software in 2014 offset with an increase in cash as a result of the collections and billing. There was also a movement of short-term investments to long-term investments during the year as investments matured and were re-invested. In total, the Hospital's net position decreased by \$6,833,289 or 11.63 percent from the previous year. This decrease is the result of an increase in net position related to Hospital operations of \$2,662,332, offset by the decrease in the beginning net position of \$9,495,621 for the cumulative effect of change in accounting principle discussed further in Note 1. The increase in net position for 2014 was \$5,391,905 or 36.99 percent. The increased net position in 2014 was primarily the result of a large donation to the Hospital for the purpose of capital purchases. The following chart provides a breakdown of the Hospital's net position by category for the years ended December 31, 2015 and 2014:

	Year Ended December 31	
	2015	2014
Net Position		
Net investment in capital assets	\$ 18,019,793	\$ 19,021,179
Restricted	6,573,814	5,962,814
Unrestricted	27,318,545	33,761,448

For the year ended December 31, 2015, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$2,662,332. The increase for 2014 was \$5,391,905.

Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

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, deferred outflows of resources, liabilities and deferred inflows of resources—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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	December 31		2015/2014 Change	
	2015	2014	Amount	Percent
Assets				
Current assets	\$ 27,555,262	\$ 29,509,593	\$ (1,954,331)	-6.62%
Assets limited as to use	6,573,814	5,962,814	611,000	10.25%
General long-term investments	13,699,814	9,083,352	4,616,462	50.82%
Capital assets	18,019,793	19,021,179	(1,001,386)	-5.26%
Net pension asset	17,596	-	17,596	100.00%
Total assets	<u>65,866,279</u>	<u>63,576,938</u>	<u>2,289,341</u>	<u>3.60%</u>
Deferred Outflows of Resources	<u>2,130,189</u>	<u>-</u>	<u>2,130,189</u>	<u>100.00%</u>
Total assets and deferred outflows of resources	<u>\$ 67,996,468</u>	<u>\$ 63,576,938</u>	<u>\$ 4,419,530</u>	<u>6.95%</u>
Liabilities				
Current Liabilities	\$ 4,748,506	\$ 4,831,497	\$ (82,991)	-1.72%
Net pension liability	11,134,824	-	11,134,824	100.00%
Total liabilities	<u>15,883,330</u>	<u>4,831,497</u>	<u>11,051,833</u>	<u>228.75%</u>
Deferred Inflows of Resources	<u>200,986</u>	<u>-</u>	<u>200,986</u>	<u>100.00%</u>
Net Position				
Net investment in capital assets	18,019,793	19,021,179	(1,001,386)	-5.26%
Restricted	6,573,814	5,962,814	611,000	10.25%
Unrestricted	27,318,545	33,761,448	(6,442,903)	-19.08%
Total net position	<u>51,912,152</u>	<u>58,745,441</u>	<u>(6,833,289)</u>	<u>-11.63%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 67,996,468</u>	<u>\$ 63,576,938</u>	<u>\$ 4,419,530</u>	<u>6.95%</u>

Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

The primary change in the Hospital's balance sheet relates to positive operating results which contributed to an increase in net position for 2015 from operations, offset by the effects of adoption of new Governmental Accounting Standards Board (GASB) pronouncement, GASB 68, *Accounting and Financial Reporting to Pensions – an amendment of GASB 27* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measure Date – an amendment of GASB Statement No. 68*. The effect of this adoption is discussed further in Note 1. As data was not available to restate the 2014 financial statements, the effect of adoption of these new standards is not incorporated into the 2014 financials information in the management's discussion and analysis.

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, 2015 and 2014.

	Year Ended December 31		2015/2014 Change	
	2015	2014	Amount	Percent
Operating Revenue				
Net patient service revenue	\$ 39,422,494	\$ 36,320,607	\$ 3,101,887	8.54%
Other operating revenue	1,710,846	1,267,654	443,192	34.96%
Total operating revenue	<u>41,133,340</u>	<u>37,588,261</u>	<u>3,545,079</u>	9.43%
Operating Expenses				
Salaries and wages	13,902,772	12,391,105	1,511,667	12.20%
Employee benefits and payroll taxes	3,682,879	3,836,158	(153,279)	-4.00%
Supplies and other	9,913,680	8,992,655	921,025	10.24%
Purchased services and professional fees	9,139,843	8,334,583	805,260	9.66%
Insurance	412,274	395,750	16,524	4.18%
Depreciation and amortization	2,660,936	2,557,082	103,854	4.06%
Total operating expenses	<u>39,712,384</u>	<u>36,507,333</u>	<u>3,205,051</u>	8.78%
Operating Income	<u>1,420,956</u>	<u>1,080,928</u>	<u>340,028</u>	31.46%
Nonoperating Revenue				
Interest income	101,870	98,640	3,230	3.27%
Contributions and other income	1,139,506	46,733	1,092,773	2338.33%
Total nonoperating revenue	<u>1,241,376</u>	<u>145,373</u>	<u>1,096,003</u>	753.92%
Excess of Revenues Over Expenses Before Capital Gifts	2,662,332	1,226,301	1,436,031	117.10%
Capital Gifts	<u>-</u>	<u>4,165,604</u>	<u>(4,165,604)</u>	-100.00%
Increase in Net Position	2,662,332	5,391,905	(2,729,573)	-50.62%
Net Position, Beginning of Year, As Previously Reported	58,745,441	53,353,536	5,391,905	10.11%
Cumulative Effect of Change in Accounting Principle	<u>(9,495,621)</u>	<u>-</u>	<u>(9,495,621)</u>	100.00%
Net Position, End of Year	<u>\$ 51,912,152</u>	<u>\$ 58,745,441</u>	<u>\$ (6,833,289)</u>	-11.63%

Wyandot Memorial Hospital

Management's Discussion and Analysis

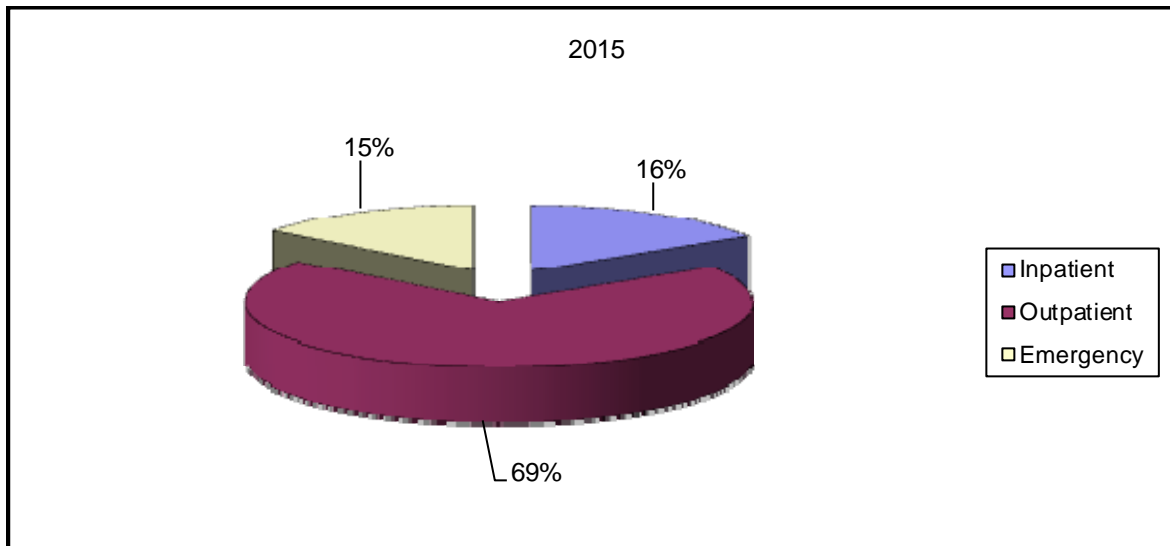
December 31, 2015

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 2015 were 52.33 percent of gross revenue and were 53.63 percent for 2014. Net patient service revenue increased 7.67 percent. The increase in revenue deductions is attributable to Medicare sequestration, increase in contractual adjustments as a result of the new patient account system changes and changes in payor mix as a result of Medicaid expansion in Ohio
- Other operating revenue increased 34.96 percent for 2015 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 2014, other operating revenue increased 100.02 percent
- The following is a graphic illustration of operating revenue by source:



Wyandot Memorial Hospital

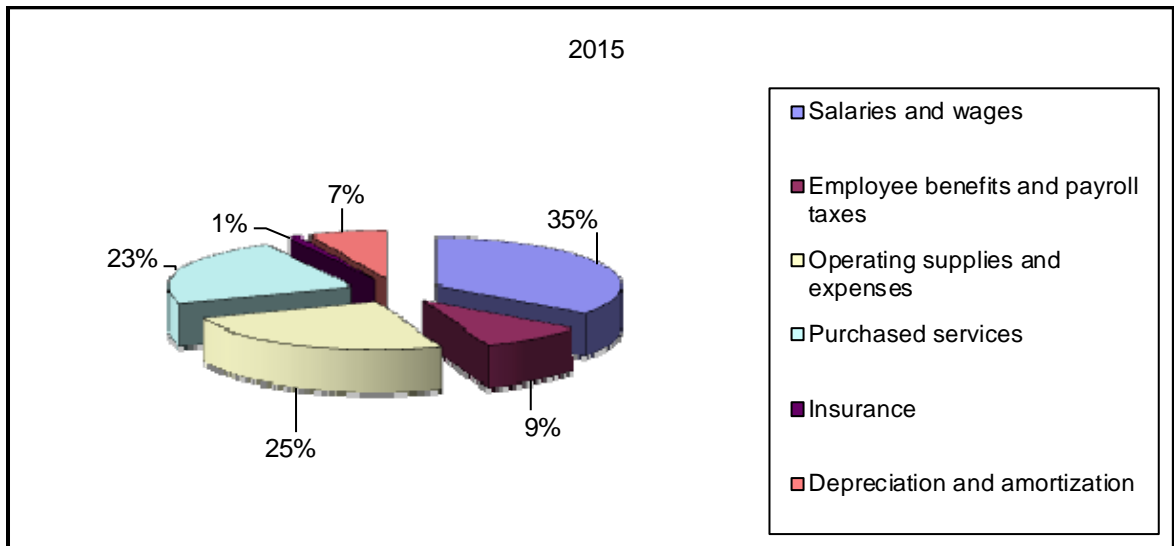
Management's Discussion and Analysis

December 31, 2015

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 12.20 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 12.85 percent for 2014
- Employee benefit and payroll tax costs decreased 4.00 percent, due primarily to changes in pension expense as a result of the adoption of the change in accounting principle discussed in Note 1. Benefits increased 13.69 percent for 2014
- Supplies increased 10.24 percent due primarily to increased patient supplies for Oncology, Pharmacy and Surgery as a result of increased patient volumes and other ancillary services. For 2014, supplies increased 8.97 percent
- Purchased services increased 9.66 percent, primarily due to the increased professional fees for Physician Services, Emergency Department and Physical Therapy. Purchased services costs increased by 9.14 percent for 2014
- Insurance costs increased 4.18 percent, due to a slight increase in insurance premiums related to tail coverage associated with medical malpractice. Insurance costs increased 111.26 percent for 2014
- The following is a graphic illustration of operating expenses by type:



Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

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 an increase in nonoperating revenue of \$1,096,003 from 2014 to 2015 due to contributions received during the year.

Capital Gifts

During 2014, the Hospital received a gift of \$4,165,604 from the estate of a donor to purchase capital assets. There were no capital gifts received during 2015.

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		2015/2014 Change Increase (Decrease)
	2015	2014	
Cash Provided by (Used In)			
Operating activities	\$ 9,939,401	\$ (4,272,963)	\$ 14,212,364
Capital and noncapital related financing activities	(769,597)	3,219,080	(3,988,677)
Investing activities	(2,766,928)	(4,466,890)	1,699,962
Net Increase (Decrease) in Cash and Cash Equivalents	6,402,876	(5,520,773)	11,923,649
Cash and Cash Equivalents, Beginning of Year	7,110,030	12,630,803	(5,520,773)
Cash and Cash Equivalents, End of Year	\$ 13,512,906	\$ 7,110,030	\$ 6,402,876

Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

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 \$14,212,364 over the prior year. This is primarily a result of the decrease in accounts receivable related to the implementation of a new computer system during 2014. Cash from operating activities decreased \$9,240,771 for 2014.

Contributions for acquisition of property and equipment were \$4,165,604 during 2014. There were no contributions for acquisition of property and equipment during 2015. Noncapital grants and gifts during 2015 were \$1,139,506. Capital purchases for 2015 were \$1,953,822 and capital purchases for 2014 were \$946,524.

Investing activities used cash of \$2,766,928 for 2015. Investment activities used cash of \$4,466,890 in 2014.

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 the various renovation projects continuing through 2015.

At December 31, 2015, the Hospital had \$41,586,320 invested in capital assets, which is netted against accumulated depreciation of \$23,566,527. Capital assets for 2014 were \$40,274,097 and depreciation and amortization expense totaled \$21,252,918. Capital assets of the Hospital for the years ended December 31, 2015 and 2014 are detailed below:

	Year Ended December 31		2015/2014 Change Increase
	2015	2014	
Land	\$ 85,000	\$ 45,000	\$ 40,000
Land improvements	1,147,971	1,088,831	59,140
Buildings and improvements	22,463,588	21,769,556	694,032
Major movable equipment	17,889,761	17,370,710	519,051
Total	\$ 41,586,320	\$ 40,274,097	\$ 1,312,223

Wyandot Memorial Hospital

Management's Discussion and Analysis

December 31, 2015

Debt

For the years ended December 31, 2015 and 2014, the Hospital had no outstanding debt.

Although the Hospital has no debt obligations, the Hospital continues to complete project renovations and provide capital improvements without securing any 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 three 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, 2015

	Hospital	Component
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 12,167,385	\$ 286,927
Short-term investments	7,686,320	197,715
Patient accounts receivable, net of allowance; 2015 - \$2,193,100	6,050,442	-
Inventory	827,523	-
Prepaid expenses and other	823,592	-
Total current assets	27,555,262	484,642
Noncurrent Cash and Investments		
Assets limited as to use	6,573,814	-
Long-term investments	13,699,814	975,992
Total noncurrent cash and investments	20,273,628	975,992
Capital Assets, Net	18,019,793	-
Net Pension Asset	17,596	-
Total assets	65,866,279	1,460,634
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	\$ 67,996,468	\$ 1,460,634
Liabilities, Deferred Inflows Of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 1,262,501	\$ -
Accrued compensated absences	1,128,920	-
Accrued expenses and other	1,736,329	-
Estimated amounts due to third-party payers	620,756	-
Total current liabilities	4,748,506	-
Net Pension Liability	11,134,824	-
Total liabilities	15,883,330	-
Deferred Inflows of Resources		
Total liabilities, deferred inflows of resources and net position	200,986	-
Net Position		
Net investment in capital assets	18,019,793	-
Restricted		
Expendable for capital acquisitions	6,573,814	-
Unrestricted	27,318,545	1,460,634
Total net position	51,912,152	1,460,634
Total liabilities, deferred inflows of resources and net position	\$ 67,996,468	\$ 1,460,634

Wyandot Memorial Hospital
Statements of Revenue, Expenses and Changes in Net Position
Year Ended December 31, 2015

	<u>Hospital</u>	<u>Component</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2015 - \$1,225,904	\$ 39,422,494	\$ -
Other	1,710,846	-
Total operating revenue	<u>41,133,340</u>	<u>-</u>
Operating Expenses		
Salaries and wages	13,902,772	-
Employee benefits	3,682,879	-
Purchased services and professional fees	9,139,843	-
Supplies and other	9,913,680	74,539
Insurance	412,274	-
Depreciation and amortization	2,660,936	-
Total operating expenses	<u>39,712,384</u>	<u>74,539</u>
Operating Income (Loss)	<u>1,420,956</u>	<u>(74,539)</u>
Nonoperating Revenue		
Interest income	101,870	5,194
Noncapital grants and gifts	1,139,506	61,527
Total nonoperating revenue	<u>1,241,376</u>	<u>66,721</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts and Increase (Decrease) in Net Position	2,662,332	(7,818)
Net Position, Beginning of Year, As Previously Reported	58,745,441	1,468,452
Cumulative Effect of Change in Accounting Principle	<u>(9,495,621)</u>	<u>-</u>
Net Position, Beginning of Year, As Restated	<u>49,249,820</u>	<u>1,468,452</u>
Net Position, End of Year	<u>\$ 51,912,152</u>	<u>\$ 1,460,634</u>

Wyandot Memorial Hospital

Statements of Cash Flows

Year Ended December 31, 2015

	Hospital	Component
Operating Activities		
Receipts from and on behalf of patients	\$ 45,065,946	\$ -
Payments to suppliers and contractors	(19,232,963)	(74,539)
Payments to employees	(17,956,464)	-
Other receipts, net	2,062,882	-
Net cash provided by (used in) operating activities	9,939,401	(74,539)
Noncapital Financing Activities		
Noncapital grants and gifts	1,139,506	61,527
Capital and Related Financing Activities		
Purchase of capital assets, net of proceeds on disposals	(1,953,892)	-
Proceeds from disposal of capital assets	44,789	-
Net cash used in capital and related financing activities	(1,909,103)	-
Investing Activities		
Net change in assets limited as to use and investments	(2,868,798)	(37,497)
Income on investments	101,870	5,194
Net cash used in investing activities	(2,766,928)	(32,303)
Increase (Decrease) in Cash and Cash Equivalents	6,402,876	(45,315)
Cash and Cash Equivalents, Beginning of Year	7,110,030	332,242
Cash and Cash Equivalents, End of Year	\$ 13,512,906	\$ 286,927
Reconciliation of Net Operating Income (Loss) to		
Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 1,420,956	\$ (74,539)
Depreciation and amortization	2,660,936	-
Provision for uncollectible accounts	1,225,904	-
Loss on disposal of capital assets	85	-
Changes in operating assets and liabilities		
Patient accounts receivable	4,420,603	-
Inventory	(169,532)	-
Prepaid expenses and other	521,568	-
Accounts payable	232,749	-
Accrued compensated expenses and other	(370,813)	-
Estimated amounts due to third-party payers	(3,055)	-
Net cash provided by (used in) operating activities	\$ 9,939,401	\$ (74,539)
Reconciliation of Cash and Cash		
Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 12,167,385	\$ 286,927
Cash and cash equivalents in investments and assets limited as to	1,345,521	-
Total cash and cash equivalents	\$ 13,512,906	\$ 286,927
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable, end of year	\$ 23,140	\$ -
Capital asset acquisitions included in accounts payable, beginning of year	272,608	-

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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

Nature of Operations and Reporting Organization

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 Governmental Accounting Standards Board (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.

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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, 2015, 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 (stated at cost plus accrued interest, which approximates market value), and money market accounts and commercial and governmental bonds (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 as 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. 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 movable equipment	3-25 years

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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.

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

The Hospital participates in two cost-sharing multiple-employer defined benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan and the Combined Plan (the Plans). For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. 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 the Financial Statements

December 31, 2015

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 \$315,000 in 2015. The Hospital received approximately \$303,000 in 2015 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 into the fund during 2015.

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 became self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred, but not yet reported.

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 the Financial Statements

December 31, 2015

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 percent 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 2015, 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 \$216,000, which is included in other operating revenue in the statements of revenue, expenses and changes in net position for the year ended December 31, 2015.

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.

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid (including Managed Care) programs for the year ended December 31, 2015. 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.

Change in Accounting Principle

During 2015, the Hospital adopted the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements establish new accounting and financial requirements for pensions provided by the Hospital to its employees. The Hospital provides pension benefits to its employees under two cost-sharing, multiple-employer defined benefit pension plans and a defined contribution plan, all of which are within the scope of these statements. These statements require the Hospital to recognize a net pension liability and net pension asset, pension expense and pension related deferred inflows and outflows of resources based on the Hospital's proportionate share of collective amounts for all participating employers in the defined benefit plans. The Hospital's portion of the net pension liability and net pension asset, pension expense and pension related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of these statements resulted in a reduction to the beginning net position as of January 1, 2015, of approximately \$9,495,000 to recognize the cumulative effect of applying these statements to beginning net position. The decrease is attributed to recognition of a net pension liability of approximately \$10,883,000 and net pension asset of approximately \$5,000 at January 1, 2015, and deferred outflows of resources related to the Hospital's contributions made subsequent to the measurement date of December 31, 2014, of approximately \$1,383,000.

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

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, 2015, all of the Hospital's bank deposits (certificates of deposit, checking and savings accounts) in excess of FDIC insured amounts, which were approximately \$15,840,000, were uninsured and collateralized by various securities; the component unit had approximately \$3,000 at December 31, 2015, 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, 2015, 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
U.S. Government agency bonds	\$ 1,070	Counterparty

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

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
U.S. Government agency bonds	\$ 1,070	132.22 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
U.S. Government agency bonds	\$ 1,070	AA+	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, 2015, as follows:

	2015
Carrying value	
Cash and cash equivalents	\$ 13,799,833
Certificates of deposit	27,787,064
U.S. Government agency bonds	1,070
	<u>\$ 41,587,967</u>
Included in the following balance sheet captions	
Hospital	
Cash and cash equivalents	\$ 12,167,385
Short-term investments	7,686,320
Assets limited as to use	6,573,814
Long-term investments	13,699,814
Component Unit	
Cash and cash equivalents	286,927
Short-term investments	197,715
Long-term investments	975,992
	<u>\$ 41,587,967</u>

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

Investment Income

Investment income for the year ended December 31, 2015, consists of:

	2015
Hospital interest and dividend income	\$ 101,870
Component unit interest and dividend income	5,194
Interest income	\$ 107,064

Note 3: Patient Accounts Receivable

Patient accounts receivable at December 31, 2015, consists of:

	2015
Patient accounts receivable	\$ 22,240,766
Less	
Allowance for uncollectible amounts	2,193,100
Allowance for contractual adjustments	13,997,224
Patient accounts receivable, net	\$ 6,050,442

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:

	2015
Medicare	40%
Medicaid	19%
Commercial insurance and HMOs	28%
Self-pay	13%
	100%

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2015, was:

	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 45,000	\$ 40,000	\$ -	\$ 85,000
Land improvements	1,088,831	59,140	-	1,147,971
Building and building improvements	20,797,090	706,769	(37,994)	21,465,865
Building service equipment	972,466	29,557	(4,300)	997,723
Major moveable equipment	17,370,710	868,958	(349,907)	17,889,761
	<u>40,274,097</u>	<u>1,704,424</u>	<u>(392,201)</u>	<u>41,586,320</u>
Less accumulated depreciation				
Land improvements	365,940	85,420	-	451,360
Building and building improvements	7,831,012	804,227	(864)	8,634,375
Building service equipment	796,288	13,437	(4,300)	805,425
Major moveable equipment	12,259,678	1,757,852	(342,163)	13,675,367
	<u>21,252,918</u>	<u>2,660,936</u>	<u>(347,327)</u>	<u>23,566,527</u>
Capital assets, net	<u>\$ 19,021,179</u>	<u>\$ (956,512)</u>	<u>\$ (44,874)</u>	<u>\$ 18,019,793</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: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$2,021,702. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

Activity in the Hospital's accrued employee health claims liability during 2015 is summarized as follows:

	2015
Balance, beginning of year	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	1,806,555
Claims and expenses paid	(1,566,555)
Balance, end of year	\$ 240,000

Note 7: Accrued Liabilities and Other

Accrued expenses included in current liabilities at December 31, 2015, consisted of:

	2015
Compensation and related items	\$ 515,875
Pension	390,314
Employee health claims	240,000
Insurance premiums and accruals	590,140
	\$ 1,736,329

Note 8: Pension Plans

Plan Descriptions

The Hospital contributes to the Ohio Public Employees Retirement System (OPERS) which administers two cost-sharing multiple-employer defined benefit pension plans and one defined contribution pension plan, which together, cover substantially all Hospital employees. All employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS' three pension plans are described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan pension plan.
2. The Member-Directed (MD) Plan – a defined contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent 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.

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

3. The Combined Plan – a cost-sharing, multi-employer defined benefit pension 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 issues a stand-alone financial report, these reports may be obtained by contacting the organization as follows:

OPERS
277 East Town Street
Columbus, Ohio 43215-4642
Telephone (800) 222-7377
www.opers.org

Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013, and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013, or are eligible to retire no later than ten years after January 7, 2013, are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. The Hospital does not have any employees included in the public safety division.

Benefits for state and local members are calculated on the basis of age, final average salary and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with five years of service. For groups A and B, the annual benefit is based on 2.2 percent of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5 percent for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2 percent for the first 35 years and a factor of 2.5 percent for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

Wyandot Memorial Hospital

Notes to the Financial Statements

December 31, 2015

OPERS offers a combined plan that has elements of both a defined benefit and defined contribution plan. In the Combined Plan, employee contributions are invested in self-directed investments and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the combined Plan for age and years of service are identical to the defined benefit Plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0 percent to the member's final average salary for the first 30 years of service. A factor of 1.25 percent is applied to years of service in excess of 30. The benefit formula for transition group C applies a factor of 1.0 percent to the member's final average salary and the first 35 years of service and a factor of 1.25 percent is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

A cost-of-living adjustment is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

All employees are required to become contributing members of OPERS when they begin employment at the Hospital unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2015, 315 employees participated in the OPERS defined benefit pension plans and seven employees participated in the defined contribution pension plan. The Hospital's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for the employee and the Hospital are as follows for the year ended December 31, 2015:

	OPERS
Employee	10%
Hospital	14%

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

For the year ended December 31, 2015, contributions to the defined benefit pension plans from the Hospital were as follows:

	OPERS
Traditional Plan	\$ 1,508,634
Combined Plan	26,361
Total	\$ 1,534,995

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2015, the Hospital reported a net pension liability and net pension asset for the OPERS defined benefit plans as follows:

	Net Pension Liability (Asset)
Traditional Plan	\$ 11,134,824
Combined Plan	(17,596)

The net pension liability and net pension asset were measured as of December 31, 2014, and the total pension liability and total pension asset used to calculate the net pension liability were determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability and net pension asset were based on the Hospital's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2015, the Hospital's proportion was 0.09232 percent for the Traditional Plan and 0.045701 percent for the Combined Plan.

For the year ended December 31, 2015, the Hospital recognized pension expense related to the defined benefit pension plans of \$1,227,399, which is comprised of expense for the Traditional Plan in the amount of \$1,215,707 and the Combined Plan in the amount of \$11,692. At December 31, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 195,617	\$ -	\$ 5,369	\$ -	\$ 200,986
Net difference between projected and actual earnings on pension plan investments	594,120	-	1,074	-	595,194	-
Hospital's contributions subsequent to the measurement date	1,508,634	-	26,361	-	1,534,995	-
	\$ 2,102,754	\$ 195,617	\$ 27,435	\$ 5,369	\$ 2,130,189	\$ 200,986

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

\$1,534,995 reported as deferred outflows of resources resulting from the Hospital's defined benefit pension plan contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2015, related to pension plans will be recognized in pension expense (revenue) as follows:

	<u>Traditional Plan</u>	<u>Combined Plan</u>	<u>Total Defined Benefit Plans</u>
2016	\$ 58,272	\$ (370)	\$ 57,902
2017	58,272	(370)	57,902
2018	133,430	(370)	133,060
2019	148,530	(370)	148,160
2020	-	(639)	(639)
Thereafter	-	(2,177)	(2,177)
	<u>\$ 398,504</u>	<u>\$ (4,296)</u>	<u>\$ 394,208</u>

Actuarial Assumptions

The total pension liability and total pension asset in the December 31, 2014, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2014	December 31, 2014
Experience study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Inflation	3.75%	3.75%
Salary increases	4.25% - 10.05% including inflation at 3.75%	4.25% - 8.05% including inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	3.00% simple	3.00% simple

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used.

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

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

Asset Class	OPERS Defined Benefit Plans Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	19.90%	5.84%
International equities	19.10%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Alternative investments	10.00%	9.25%
Other investments	18.00%	4.59%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was eight percent for the year ended December 31, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Sensitivity of the Hospital’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital’s proportionate share of the net pension liability and net pension asset has been calculated using a discount rate of eight percent. The following presents the Hospital’s proportionate share of the net pension liability and net pension asset calculated using a discount rate one percent higher and one percent lower than the current rate:

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Traditional Plan Net Pension Liability	\$ 20,484,885	\$ 11,134,824	\$ 3,259,819
Combined Plan Net Pension Liability (Asset)	2,285	(17,596)	(33,362)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plans

At December 31, 2015, the Hospital had a payable of \$390,314 for an outstanding amount of contributions to the pension plans required for the year ended December 31, 2015.

Defined Contribution Plans

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the year ended December 31, 2015, for contributions to the Member-Directed Plan was approximately \$107,000.

Other Postemployment Benefits

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying service credit under the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code (ORC) permits, but does not require OPERS to provide Other Postemployment Benefits (OPEB) to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar year ended December 31, 2015, OPERS allocated 2.0 percent of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 2.0 percent is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the

Wyandot Memorial Hospital
Notes to the Financial Statements
December 31, 2015

coverage selected. Hospital employer contributions to OPERS to fund OPEB for 2015 approximated 2.0 percent or approximately \$256,000.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0 percent of the employer contributions toward the health care fund after the end of the transition period.

Required Supplementary Information

Wyandot Memorial Hospital
Schedules of the Hospital's Proportionate Share of the Net Pension Liability
(Asset)
Ohio Public Employees Retirement System (OPERS)

	2015
Traditional Defined Benefit Pension Plan	
Hospital's proportion of the net pension liability	0.09232%
Hospital's proportionate share of the net pension liability	\$ 11,134,824
Hospital's covered employee payroll	11,318,483
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	98.38%
Plan fiduciary net position as a percentage of the total pension liability	86.45%
	2015
Combined Defined Benefit Pension Plan	
Hospital's proportion of the net pension asset	0.04570%
Hospital's proportionate share of the net pension asset	\$ 17,596
Hospital's covered employee payroll	161,341
Hospital's proportionate share of the net pension asset as a percentage of its covered employee payroll	10.91%
Plan fiduciary net position as a percentage of the total pension asset	114.83%

Wyandot Memorial Hospital
Schedule of the Hospital's Contributions
Ohio Publics Employees Retirement System (OPERS)

	2015
Traditional Defined Benefit Pension Plan	
Statutorily required contribution	\$ 1,508,634
Contributions in relation to the statutorily required contributions	(1,508,634)
Contribution deficiency	\$ -
Hospital's covered employee payroll	12,571,948
Contributions as a percentage of covered employee payroll	12.00%
	2015
Combined Defined Benefit Pension Plan	
Statutorily required contribution	\$ 26,361
Contributions in relation to the statutorily required contributions	(26,361)
Contribution deficiency	\$ -
Hospital's covered employee payroll	219,679
Contributions as a percentage of covered-employee payroll	12.00%

The amounts presented in the Schedule of Hospital's Proportionate Share of the Net Pension Liability (Asset) are presented as of December 31, 2014. The amounts presented in the Schedule of Hospital's Contributions are presented as of December 31, 2015.

These are ten-year schedules – however, the information is not required to be presented retroactively. Years will be added to these schedules in future years until ten years of information is available.

Wyandot Memorial Hospital

Notes to Required Supplementary Information

Changes of Benefit Terms

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

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

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

- No COLAs were granted for the fiscal year ended December 31, 2015, and reduced to 2 percent for future periods. COLA deferred until the fifth anniversary of retirement for members retiring after July 1, 2014
- New members require five years of qualifying service credit to be eligible for survivor benefits and ten years of service of qualifying service to be eligible for disability benefits

There were no changes of assumptions for OPERS for the fiscal years presented.

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) and its discretely presented component unit, which comprise the balance sheets as of December 31, 2015, 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 19, 2016, which contained an emphasis of matter paragraph regarding a change in accounting principle. The financial statements of Wyandot Health Foundation, a discretely presented component unit of the Hospital, 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 of the financial statements, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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*.

We noted certain other matters that we reported to the Hospital's management in a separate letter dated May 19, 2016.

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 19, 2016

This page intentionally left blank.



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 5, 2016