

Wyandot Memorial Hospital

Auditor's Report and Financial Statements

December 31, 2012 and 2011



Dave Yost • Auditor of State

Board of Governors
Wyandot Memorial Hospital
885 North Sandusky Avenue
Upper Sandusky, Ohio 43351

We have reviewed the *Independent Auditor's Report on Financial Statements* of the Wyandot Memorial Hospital, Wyandot County, prepared by BKD, LLP, for the audit period January 1, 2012 through December 31, 2012. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 21, 2013

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Wyandot Memorial Hospital

December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements

Board of Governors
Wyandot Memorial Hospital
Upper Sandusky, Ohio

We have audited the accompanying balance sheets of Wyandot Memorial Hospital (Hospital) and its discretely presented component unit, as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital and its discretely presented component unit as of December 31,

2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the 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 Audit Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013, 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* and should be considered in assessing the results of our audit.

BKD, LLP

Fort Wayne, Indiana
June 4, 2013

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

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, 2012, 2011, and 2010. 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 financial position continued to improve during the year ended December 31, 2012. Current assets increased \$6,372,580, or 27.81 percent, and general long-term investments decreased \$3,701,576, or 50.71 percent, from the prior year. The change is due to an increase in cash based on increases in revenues and certain of the investments being classified as current assets due to more investments having a maturity of less than one year. In total, the Hospital's net position increased by \$4,521,729, or 10.07 percent, from the previous year. The increase in net position for 2011 was 3.67 percent, and for 2010 the increase was 4.80 percent. The increased net position was primarily caused by an increase in net patient revenue due to changes in previously estimated amounts due from third party payors, changes in previously estimated third party settlements, charge increases, growth in patient volumes, and continued expense control. The following chart provides a breakdown of the Hospital's net position by category for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31		
	2012	2011	2010
Net Position			
Net investment in capital assets	\$ 20,842,761	\$ 19,756,795	\$ 10,985,303
Restricted	1,852,501	1,847,633	2,328,025
Unrestricted	26,722,353	23,291,458	29,993,149

In the year ended December 31, 2012, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$4,521,729. The increase for 2011 and 2010 was \$1,589,409 and \$1,983,320, respectively.

The Balance Sheet and Statement of Revenues, 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 Revenues, Expenses and Changes in Net Position report information about the Hospital as a whole and on its

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

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			2012/2011 Change	
	2012	2011	2010	Amount	Percent
Assets					
Current assets	\$ 29,283,553	\$ 22,910,973	\$ 27,034,457	\$ 6,372,580	27.81%
Assets limited as to use	1,852,501	1,847,633	2,328,025	4,868	0.26%
General long-term investments	3,597,700	7,299,276	9,454,874	(3,701,576)	-50.71%
Capital assets	20,842,761	19,756,795	10,985,303	1,085,966	5.50%
Total assets	<u>\$ 55,576,515</u>	<u>\$ 51,814,677</u>	<u>\$ 49,802,659</u>	<u>\$ 3,761,838</u>	7.26%
Liabilities					
Current Liabilities	<u>\$ 6,158,900</u>	<u>\$ 6,918,791</u>	<u>\$ 6,496,182</u>	<u>\$ (759,891)</u>	-10.98%
Net Position					
Net investment in capital assets	20,842,761	19,756,795	10,985,303	1,085,966	5.50%
Restricted	1,852,501	1,847,633	2,328,025	4,868	0.26%
Unrestricted	26,722,353	23,291,458	29,993,149	3,430,895	14.73%
Total net position	<u>49,417,615</u>	<u>44,895,886</u>	<u>43,306,477</u>	<u>4,521,729</u>	10.07%
Total liabilities and net position	<u>\$ 55,576,515</u>	<u>\$ 51,814,677</u>	<u>\$ 49,802,659</u>	<u>\$ 3,761,838</u>	7.26%

The primary change in the Hospital's balance sheet relates to the increase in current assets. Together, operating results were favorable and changes in previously estimated third-party settlements contributed to the 10.07 percent change in net position for 2012 compared to a 3.67 percent change for 2011 and a change of 4.80 percent for 2010.

Wyandot Memorial Hospital
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Table 2: Operating Results and Changes in Net Assets

The following is a comparative analysis of the major components of the statement of revenue, expenses and changes in net position of the Hospital for the year ended December 31, 2012, 2011 and 2010.

	Year Ended December 31			2012/2011 Change	
	2012	2011	2010	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 32,445,104	\$ 25,530,850	\$ 24,858,032	\$ 6,914,254	27.08%
Other operating revenue	680,180	278,733	245,496	401,447	144.03%
Total operating revenue	<u>33,125,284</u>	<u>25,809,583</u>	<u>25,103,528</u>	<u>7,315,701</u>	28.34%
Operating Expenses					
Salaries and wages	10,457,282	9,492,508	8,836,743	964,774	10.16%
Employee benefits and payroll taxes	3,187,987	3,021,689	2,753,045	166,298	5.50%
Operating supplies and expenses	6,812,984	4,722,055	4,885,707	2,090,929	44.28%
Purchased services	6,651,711	5,511,268	5,538,613	1,140,443	20.69%
Insurance	302,645	395,103	411,443	(92,458)	-23.40%
Depreciation and amortization	2,203,226	1,641,396	1,348,103	561,830	34.23%
Total operating expenses	<u>29,615,835</u>	<u>24,784,019</u>	<u>23,773,654</u>	<u>4,831,816</u>	19.50%
Operating Income	<u>3,509,449</u>	<u>1,025,564</u>	<u>1,329,874</u>	<u>2,483,885</u>	242.20%
Nonoperating Revenue					
Interest income	133,513	337,185	550,797	(203,672)	-60.40%
Contributions and other income	878,767	226,660	102,649	652,107	287.70%
Total nonoperating revenue	<u>1,012,280</u>	<u>563,845</u>	<u>653,446</u>	<u>448,435</u>	79.53%
Increase in Net Position	4,521,729	1,589,409	1,983,320	2,932,320	184.49%
Net Position, Beginning of Year	<u>44,895,886</u>	<u>43,306,477</u>	<u>41,323,157</u>	<u>1,589,409</u>	3.67%
Net Position, End of Year	<u>\$ 49,417,615</u>	<u>\$ 44,895,886</u>	<u>\$ 43,306,477</u>	<u>\$ 4,521,729</u>	10.07%

Wyandot Memorial Hospital

Management's Discussion and Analysis

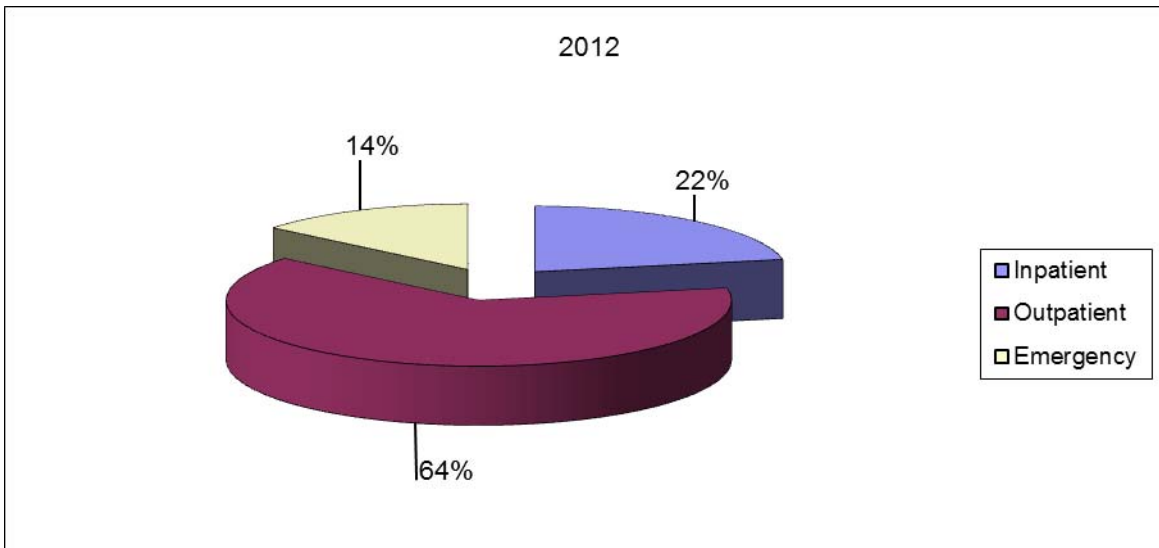
Years Ended December 31, 2012 and 2011

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 2012 are 51.40 percent as a percentage of gross revenue and were 53.40 and 53.00 percent in 2011 and 2010, respectively. Net patient service revenue increased 27.08 percent. The decrease in revenue deductions and increase in net patient service revenue were attributable in part to an increase in charges, increases in patient volumes, including certain outpatient ancillary services and changes in estimates related to third party settlements from previous years.
- Other operating revenue increased 144.03 percent for 2012 which was due in part to an increase in other non-patient services. In 2011, other operating revenue increased 13.54 percent and in 2010 it increased 7.13 percent.
- The following is a graphic illustration of operating revenue by source:



Wyandot Memorial Hospital

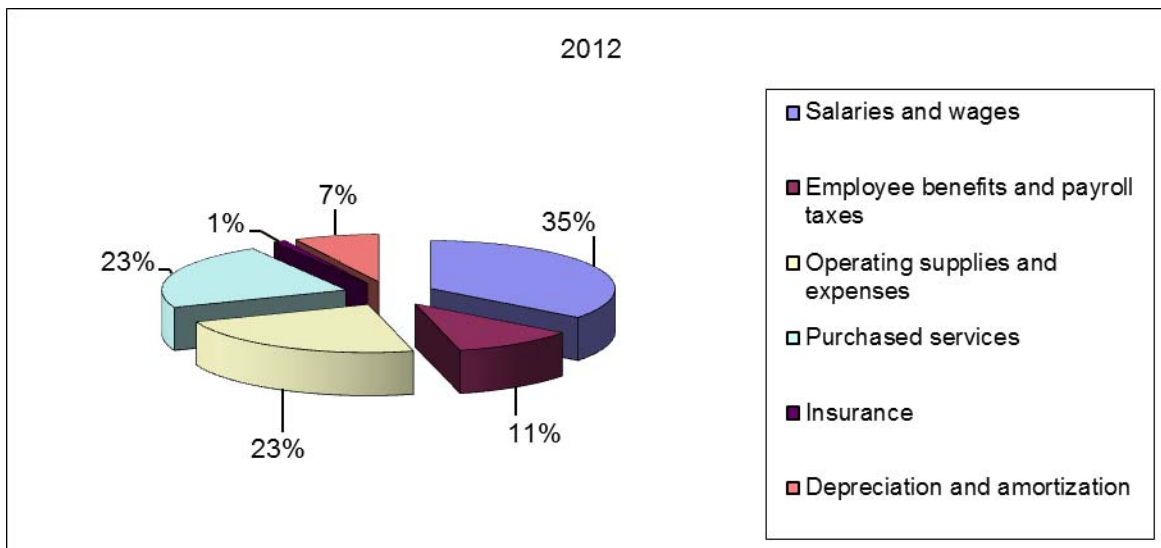
Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

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:

- Salary costs increased 10.16 percent, due in part to additional staffing, including a full year for physician practices started in 2011 and annual salary adjustments. Salary costs increased 7.42 percent for 2011 and decreased .05 percent for 2010.
- Benefit costs increased 5.50 percent, due in part to increases in OPERS premiums, resulting from additional salary costs, paid by the Hospital for covered employees. Benefits increased 9.76 percent in 2011 and increased 4.11 percent in 2010.
- Supplies increased 44.28 percent, due in part to increased patient supplies for Oncology, Pharmacy and Surgery, increase in patient volume and increases in other ancillary departments. There were also increased purchases of minor equipment and supplies related to the completion of the building program. In 2011, supplies increased 3.35 percent and in 2010 they increased 3.99 percent.
- Purchased services increased 20.69 percent, primarily due to the increased professional fees for Oncology, Physician Services, Emergency Department and Physical Therapy. Utilities also increased due to rate increases and completion of the building program. There was a decrease of .49 percent for 2011 and a 4.57 percent increase for 2010.
- Insurance costs decreased 23.40 percent, due in part to good claims experience. Insurance costs decreased 3.97 percent for 2011. The increase for 2010 was 35.41 percent.
- The following is a graphic illustration of operating expenses by type:



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Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

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 from the prior year. This was due to an increase in contributions and grants, offset by a decrease in interest income due to declining interest rates.

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			2012/2011
	2012	2011	2010	Increase (Decrease)
Cash Provided by (Used in)				
Operating activities	\$ 4,657,892	\$ 3,325,542	\$ 3,359,282	\$ 1,332,350
Capital and noncapital related financing activities	(4,045,545)	(11,023,306)	(3,537,267)	6,977,761
Investing activities	508,501	1,567,411	1,467,414	(1,058,910)
Net Increase (Decrease) in Cash and Cash Equivalents	1,120,848	(6,130,353)	1,289,429	7,251,201
Cash and Cash Equivalents, Beginning of Year	9,186,709	15,317,062	14,027,633	(6,130,353)
Cash and Cash Equivalents, End of Year	\$ 10,307,557	\$ 9,186,709	\$ 15,317,062	\$ 1,120,848

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

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 \$1,332,250 over the prior year. This is a result of increased payments from patient accounts and other operating receipts offset by increased payments to suppliers, building contractors and employees. Cash from operating activities decreased \$33,740 in 2011 and increased \$1,021,539 in 2010.

Capital purchases, net of grants and contributions were \$4,045,545. Net capital purchases for 2011 were \$11,023,306 and for 2010 they were \$3,537,267.

Investing activities provided cash of \$508,501 and were down from 2011 and 2010 activities which were \$1,567,411 and \$1,467,414, respectively.

Capital Assets

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

At December 31, 2012, the Hospital had \$38,202,026 invested in capital assets, which was netted against accumulated depreciation of \$17,359,265. Capital assets for 2011 and 2010 were \$35,303,610 and \$25,667,416, respectively. Depreciation and amortization totaled \$2,203,226 for the current year compared to \$1,641,396 last year and \$1,348,103 for 2010. Details of these assets for the past three years are shown below:

	Year Ended December 31			2012/2011
	2012	2011	2010	Increase (Decrease)
Land	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
Land improvements	1,045,835	277,104	234,392	768,731
Buildings and improvements	21,542,066	8,832,647	9,352,112	12,709,419
Major movable equipment	15,569,125	13,668,677	12,518,317	1,900,448
Construction in progress	-	12,480,182	3,527,595	(12,480,182)
Total	\$ 38,202,026	\$ 35,303,610	\$ 25,677,416	\$ 2,898,416

Debt

For the years ended December 31, 2012, 2011 and 2010, the Hospital had no outstanding debt.

Although the Hospital has no debt obligations, it has in the past made strides to pay it down and has done so in alignment with its prescribed debt schedules. The Hospital completed the building program without

Wyandot Memorial Hospital

Management's Discussion and Analysis

Years Ended December 31, 2012 and 2011

securing any new debt obligations. The program was funded through operations, endowments 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, 2012 and 2011

	December 31, 2012		December 31, 2011	
	Hospital	Component	Hospital	Component
Assets				
Current Assets				
Cash and cash equivalents	\$ 9,823,671	\$ 355,039	\$ 8,678,330	\$ 957,556
Short-term investments	13,173,882	461,394	9,876,655	1,022,700
Patient accounts receivable, net of allowance; 2012 - \$2,075,000 2011 - \$1,600,000	4,700,418	-	3,148,813	-
Inventory	721,590	-	571,602	-
Prepaid expenses and other	863,992	-	635,573	-
Total current assets	<u>29,283,553</u>	<u>816,433</u>	<u>22,910,973</u>	<u>1,980,256</u>
Noncurrent Cash and Investments				
Assets limited as to use	1,852,501	-	1,847,633	-
Long-term investments	3,597,700	544,272	7,299,276	121,670
Total noncurrent cash and investments	<u>5,450,201</u>	<u>544,272</u>	<u>9,146,909</u>	<u>121,670</u>
Total assets	<u>20,842,761</u>	<u>-</u>	<u>19,756,795</u>	<u>-</u>
Total assets	<u>\$ 55,576,515</u>	<u>\$ 1,360,705</u>	<u>\$ 51,814,677</u>	<u>\$ 2,101,926</u>
Liabilities and Net Position				
Current Liabilities				
Accounts payable	\$ 1,005,574	\$ -	\$ 2,524,491	\$ -
Accrued compensated absences	921,600	-	802,100	-
Accrued expenses and other	1,585,413	-	1,293,851	-
Estimated amounts due to third-party payers	2,646,313	-	2,298,349	-
Total current liabilities	<u>6,158,900</u>	<u>-</u>	<u>6,918,791</u>	<u>-</u>
Net Position				
Net investment in capital assets	20,842,761	-	19,756,795	-
Restricted				
Nonexpendable permanent endowments	15,000	-	15,000	-
Expendable for capital acquisitions	1,837,501	-	1,832,633	757,415
Unrestricted	26,722,353	1,360,705	23,291,458	1,344,511
Total net position	<u>49,417,615</u>	<u>1,360,705</u>	<u>44,895,886</u>	<u>2,101,926</u>
Total liabilities and net position	<u>\$ 55,576,515</u>	<u>\$ 1,360,705</u>	<u>\$ 51,814,677</u>	<u>\$ 2,101,926</u>

Wyandot Memorial Hospital
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	December 31, 2012		December 31, 2011	
	Hospital	Component	Hospital	Component
Operating Revenue				
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$2,172,390 and 2011 - \$1,733,583	\$ 32,445,104	\$ -	\$ 25,530,850	\$ -
Other	680,180	-	278,733	-
Total operating revenue	<u>33,125,284</u>	<u>-</u>	<u>25,809,583</u>	<u>-</u>
Operating Expenses				
Salaries and wages	10,457,282	-	9,492,508	-
Employee benefits	3,187,987	-	3,021,689	-
Purchased services and professional fees	6,651,711	-	5,511,268	-
Supplies and other	6,812,984	31,602	4,722,055	31,939
Insurance	302,645	-	395,103	-
Depreciation and amortization	2,203,226	-	1,641,396	-
Total operating expenses	<u>29,615,835</u>	<u>31,602</u>	<u>24,784,019</u>	<u>31,939</u>
Operating Income (Loss)	<u>3,509,449</u>	<u>(31,602)</u>	<u>1,025,564</u>	<u>(31,939)</u>
Nonoperating Revenue				
Interest income	133,513	25,570	337,185	37,629
Noncapital grants and gifts	878,767	(735,189)	226,660	(316,532)
Total nonoperating revenue (expenses)	<u>1,012,280</u>	<u>(709,619)</u>	<u>563,845</u>	<u>(278,903)</u>
Increase (Decrease) in Net Position	4,521,729	(741,221)	1,589,409	(310,842)
Net Position, Beginning of Year	<u>44,895,886</u>	<u>2,101,926</u>	<u>43,306,477</u>	<u>2,412,768</u>
Net Position, End of Year	<u>\$ 49,417,615</u>	<u>\$ 1,360,705</u>	<u>\$ 44,895,886</u>	<u>\$ 2,101,926</u>

Wyandot Memorial Hospital

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	December 31, 2012		December 31, 2011	
	Hospital	Component	Hospital	Component
Operating Activities				
Receipts from and on behalf of patients	\$ 31,241,463	\$ -	\$ 24,879,479	\$ -
Payments to suppliers and contractors	(13,657,186)	(31,602)	(10,201,850)	(31,939)
Payments to employees	(13,234,207)	-	(12,402,338)	-
Other receipts, net	307,822	-	1,050,251	-
Net cash provided by (used in) operating activities	4,657,892	(31,602)	3,325,542	(31,939)
Noncapital Financing Activities				
Noncapital grants and gifts	878,767	(735,189)	226,660	(316,532)
Capital and Related Financing Activities				
Purchase of capital assets	(4,924,312)	-	(11,249,966)	-
Investing Activities				
Net change assets limited as to use and investments	374,988	138,704	1,230,226	673,129
Income on investments	133,513	25,570	337,185	37,629
Net cash provided by investing activities	508,501	164,274	1,567,411	710,758
Increase (Decrease) in Cash and Cash Equivalents	1,120,848	(602,517)	(6,130,353)	362,287
Cash and Cash Equivalents, Beginning of Year	9,186,709	957,556	15,317,062	595,269
Cash and Cash Equivalents, End of Year	\$ 10,307,557	\$ 355,039	\$ 9,186,709	\$ 957,556
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 3,509,449	\$ (31,602)	\$ 1,025,564	\$ (31,939)
Depreciation and amortization	2,203,226	-	1,641,396	-
Provision for uncollectible accounts	2,172,390	-	1,733,583	-
Loss on disposal of capital assets	6,049	-	332,008	-
Changes in operating assets and liabilities				
Patient accounts receivable	(3,723,995)	-	(2,416,671)	-
Inventory	(149,988)	-	(58,441)	-
Prepaid expenses and other	(228,419)	-	140,424	-
Accounts payable	110,154	-	426,576	-
Accrued compensated expenses and other	411,062	-	111,859	-
Estimated amounts due to third-party payers	347,964	-	389,244	-
Net cash provided by (used in) operating activities	\$ 4,657,892	\$ (31,602)	\$ 3,325,542	\$ (31,939)
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents in current assets	\$ 9,823,671	\$ 355,039	\$ 8,678,330	\$ 957,556
Cash and cash equivalents in investments and	483,886	-	508,379	-
Total cash and cash equivalents	\$ 10,307,557	\$ 355,039	\$ 9,186,709	\$ 957,556
Supplemental Cash Flow Information				
Capital assets included in accounts payable	\$ -	\$ -	\$ 1,629,071	\$ -

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

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), as the discreetly presented component unit, was established on June 10, 1985, per authority of the Ohio Revised Code. The Foundation is a nonprofit 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 discreetly presented as a component unit within the Hospital's financial statements.

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.

During the year ended December 31, 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Investments, Investment Income and Assets Limited as to Use

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

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

Patient Accounts Receivable

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

Inventory

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

Capital Assets

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

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

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

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 an Hospital-determined rate for all employees. Employees may earn up to 64 hours of holiday time per year and may accumulate up to 128 hours of such time. Employees may earn up to 80 hours of sick time per year. Employees may sell a portion of their sick leave balance back to the Hospital provided their minimum balance is at least 240 hours after the transaction. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-quarter of the accumulated balance calculated at the employee's base pay rate as of the retirement date.

Salaried employees also earn compensatory time for any hours worked in excess of eight hours in one day, or 80 hours in one pay period, at the rate of time and one-half. Compensatory time may be accumulated up to a maximum of 80 hours.

Net Position

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

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. Charity care provided in 2012 and 2011, measured at estimated cost, approximated \$410,000 and \$440,000, respectively. Estimated costs are derived by using the Medicaid cost to charge ratio. 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.

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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

Risk Management

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

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by 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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the change in net position.

Subsequent Events

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

Net Patient Service Revenue

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

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

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

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 42% and 40% 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, 2012 and 2011. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

In 2012, net patient service revenue increased approximately \$1,500,000 due to changes in estimates related to calculating contractual allowances. Net patient service revenue also increased approximately \$320,000 due to removal of previously estimated settlement amounts due to third parties based on regulations and guidelines.

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.

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

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

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

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

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization's deposit policy for custodial credit risk meets the compliance requirements of the provisions of state law. At December 31, 2012 and 2011, all of the Organization's bank deposits (certificates of deposit, checking, and savings accounts), which were approximately \$14,182,000 and \$18,600,000, respectively, were uninsured and collateralized by various securities; the component unit had approximately \$56,000 and \$84,000 at December 31,

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

2012 and 2011, 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, 2012 and 2011, 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		
U.S. Government agency bonds	\$ 2,180	Counterparty
December 31, 2011		
U.S. Government agency bonds	\$ 2,180	Counterparty

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Organization's investment policy addresses interest rate risk and meets the compliance requirements of the provisions of state law. At the end of the year, the average maturities of investments at the component unit are as follows:

Investment	Fair Value	Weighted Average Maturity
December 31, 2012		
U.S. Government agency bonds	\$ 2,180	19.14 years
December 31, 2011		
U.S. Government agency bonds	\$ 2,180	20.14 years

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

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, 2012			
U.S. Government agency bonds	\$ 2,180	AAA	Standard & Poor's
December 31, 2011			
U.S. Government agency bonds	\$ 2,180	AAA	Standard & Poor's

Summary of Carrying Values

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

	2012	2011
Carrying value		
Cash and cash equivalents	\$ 10,662,596	\$ 10,144,265
Certificates of deposit	19,143,683	19,657,375
U.S. Government agency bonds	2,180	2,180
	<u>\$ 29,808,459</u>	<u>\$ 29,803,820</u>
Included in the following balance sheet captions		
Hospital		
Cash and cash equivalents	\$ 9,823,671	\$ 8,678,330
Short-term investments	13,173,882	9,876,655
Assets limited as to use	1,852,501	1,847,633
Long-term investments	3,597,700	7,299,276
Component Unit		
Cash and cash equivalents	\$ 355,039	\$ 957,556
Short-term investments	461,394	1,022,700
Long-term investments	544,272	121,670
	<u>\$ 29,808,459</u>	<u>\$ 29,803,820</u>

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

Investment Income

Investment income for the years ended December 31 consisted of:

	2012	2011
Hospital interest and dividend income	\$ 133,513	\$ 337,185
Component unit interest and dividend income	25,570	37,629
Interest income	\$ 159,083	\$ 374,814

Note 3: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	2012	2011
Patient accounts receivable	\$ 11,302,617	\$ 10,434,486
Less		
Allowance for uncollectible amounts	2,075,000	1,600,000
Allowance for contractual adjustments	4,527,199	5,685,673
Patient accounts receivable, net	\$ 4,700,418	\$ 3,148,813

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	
	2012	2011
Medicare	38%	32%
Medicaid	11%	8%
Commercial insurance and HMOs	29%	38%
Self-pay	22%	22%
	100%	100%

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

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

Wyandot Memorial Hospital

Notes to Financial Statements December 31, 2012 and 2011

	2011			Ending Balance
	Beginning Balance	Additions/ Transfers	Disposals	
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Land improvements	234,392	42,712	-	277,104
Building and building improvements	8,478,172	-	(477,420)	8,000,752
Building service equipment	873,940	-	(42,045)	831,895
Major moveable equipment	12,518,317	1,749,597	(599,237)	13,668,677
Construction in progress	3,527,595	8,952,587	-	12,480,182
	<u>25,677,416</u>	<u>10,744,896</u>	<u>(1,118,702)</u>	<u>35,303,610</u>
Less accumulated depreciation				
Land improvements	191,402	8,788	-	200,190
Building and building improvements	5,521,168	247,366	(141,954)	5,626,580
Building service equipment	792,901	15,994	(47,051)	761,844
Major moveable equipment	8,186,642	1,369,248	(597,689)	8,958,201
	<u>14,692,113</u>	<u>1,641,396</u>	<u>(786,694)</u>	<u>15,546,815</u>
Capital assets, net	<u>\$ 10,985,303</u>	<u>\$ 9,103,500</u>	<u>\$ (332,008)</u>	<u>\$ 19,756,795</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.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

Note 6: Accrued Liabilities and Other

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

	<u>2012</u>	<u>2011</u>
Compensation and related items	\$ 672,154	\$ 501,709
Pension	252,957	78,078
Insurance premiums and accruals	<u>660,302</u>	<u>714,064</u>
	<u>\$ 1,585,413</u>	<u>\$ 1,293,851</u>

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 2012, 2011 and, 2010, member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2012, 2011 and 2010 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were approximately \$1,453,000, \$1,290,000 and \$1,216,000, respectively, for 2012, 2011 and 2010 which equaled 100% of the required contributions for each year.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

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

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, 2011 and 2010, 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 was 4% during 2012 and 6.05% for members in the Combined Plan. 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 2012, 2011 and 2010 was approximately \$415,000, \$369,000 and \$441,000, respectively.

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

Note 8: Risks & Uncertainties

Current Economic Conditions

The current economic situation continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Wyandot Memorial Hospital

Notes to Financial Statements

December 31, 2012 and 2011

Current economic conditions, including high unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

Note 9: 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 that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

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

Supplementary Information

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, as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 4, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 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. *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. We consider the deficiency described in the accompanying schedule of findings and responses as item 12-1 to be a material weakness.

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*.

Management's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

BKD, LLP

Fort Wayne, Indiana
June 4, 2013

Wyandot Memorial Hospital
Schedule of Findings and Responses
Year Ended December 31, 2012

Reference Number	Finding	Status
12-1	<p>Criteria or Specific Requirement – The Hospital should review accounts receivable estimates, including contractual allowance and bad debt estimates, in conjunction with cash receipts on estimated net receivables.</p> <p>Condition – The Hospital was not performing a detailed review of actual cash receipts on estimated balances.</p> <p>Context –Based on evaluation of subsequent receipts on net patient account balances post-December 31, 2012, more cash was received than estimated based on management’s estimate.</p> <p>Effect – An audit adjustment was recorded to reduce estimated contractual allowances by \$1,500,000.</p> <p>Cause – The analysis performed by management does not include a lookback of actual payments on net accounts receivable balances resulting in accounts receivable being undervalued.</p> <p>Recommendation – We recommend that management begin to perform a periodic lookback on actual cash payments in conjunction with their current practice of estimating contractual allowances and bad debts to ensure accounts receivable is appropriately valued.</p> <p>View of Responsible Officials and Planned Corrective Actions – Management does agree that performing a lookback will provide further support for valuing accounts receivable. This data has not been available historically, and will begin to use this information going forward.</p>	



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
SEPTEMBER 03, 2013**