

Wyandot Memorial Hospital and Affiliate

**Financial Report
with Additional Information
December 31, 2006**



Mary Taylor, CPA
Auditor of State

Board of Governors
Wyandot Memorial Hospital and Affiliate
885 N. Sandusky Ave.
Upper Sandusky, Ohio 43351

We have reviewed the *Independent Auditor's Report* of Wyandot Memorial Hospital and Affiliate, Wyandot County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2006 through December 31, 2006. 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. Wyandot Memorial Hospital and Affiliate is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 12, 2007

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Wyandot Memorial Hospital and Affiliate

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Independent Auditor's Report

To the Board of Governors
Wyandot Memorial Hospital and Affiliate

We have audited the accompanying balance sheet of Wyandot Memorial Hospital and Affiliate (collectively, the "Organization") as of December 31, 2006 and 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wyandot Memorial Hospital and Affiliate at December 31, 2006 and 2005 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2007 on our consideration of Wyandot Memorial Hospital and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions 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 audits.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

May 8, 2007

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis

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 year ended December 31, 2006. Management is responsible for the completeness and fairness of the financial statements and the related footnote 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 increased significantly during the year ended December 31, 2006. Current assets increased by \$282,181, or 2.2 percent, and general long-term investments increased by \$813,497, or 6.3 percent, from the prior year. This was due in part to an increase in cash and cash equivalents, inventories, and long-term investments. In total, the Hospital's net assets increased by \$2,397,336, or 7.5 percent, from the previous year. The increased net assets were caused primarily by an increase in patient revenue due to charge increases, some additional services, growth in some ancillary service volumes, and conversion to a critical access hospital for Medicare reimbursement purposes.

The following chart provides a breakdown of net assets by category for the years ended December 31, 2006, 2005, and 2004:

	Year Ended December 31		
	2006	2005	2004
Net Assets			
Invested in capital assets - Net of related debt	\$ 7,095,909	\$ 5,832,662	\$ 6,260,733
Restricted for debt service and other purposes	1,958,911	1,860,124	1,994,443
Unrestricted	25,163,715	24,128,413	20,812,708

In the year ended December 31, 2006, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$2,397,336.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is: "Is the Hospital as a whole better off or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Hospital's operating results.

These two statements report the Hospital's net assets and their changes. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

The financial statements of the Hospital include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statements for the component unit are on an accrual basis.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2006, 2005, and 2004:

	December 31			2006/2005 Change	
	2006	2005	2004	Amount	Percent
Assets					
Current assets	\$13,157,482	\$12,875,301	\$10,593,152	\$282,181	2.2 %
Assets limited as to use	1,958,911	1,860,124	1,994,443	98,787	5.3 %
General long-term investments	13,755,285	12,941,788	11,750,104	813,497	6.3 %
Capital assets	7,095,909	5,977,662	6,556,453	1,118,247	18.7 %
Total assets	\$35,967,587	\$33,654,875	\$30,894,152	\$2,312,712	6.9%
Liabilities					
Current liabilities	\$1,749,052	\$1,833,676	\$1,681,268	\$(84,624)	-4.6%
Long-term liabilities	-	-	145,000	-	0.0 %
Total liabilities	1,749,052	1,833,676	1,826,268	(84,624)	-4.6 %
Net Assets					
Invested in capital assets - Net of debt	7,095,909	5,832,662	6,260,733	1,263,247	21.7 %
Restricted	1,958,911	1,860,124	1,994,443	98,787	5.3 %
Unrestricted	25,163,715	24,128,413	20,812,708	1,035,302	4.3 %
Total net assets	34,218,535	31,821,199	29,067,884	2,397,336	7.5 %
Total liabilities and net assets	\$35,967,587	\$33,654,875	\$30,894,152	\$ 2,312,712	6.9 %

The primary change in the statement of net assets relates to a significant increase in capital assets - net of debt. Operating results were favorable and contributed to the 7.5 percent change in net assets.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Operating Results for the Year

The following is a comparative analysis of the major components of the statement of revenue, expenses, and changes in net assets of the Hospital for the years ended December 31, 2006, 2005, and 2004:

	Year Ended December 31			2006/2005 Change	
	2006	2005	2004	Amount	Percent
Operating Revenue					
Net patient service revenue	\$21,490,681	\$20,766,122	\$19,112,585	\$724,559	3.5 %
Other	545,054	643,505	592,140	(98,451)	-15.3 %
Total operating revenue	22,035,735	21,409,627	19,704,725	626,108	2.9 %
Operating Expenses					
Salaries and wages	8,486,873	7,836,257	7,459,849	650,616	8.3 %
Employee benefits and payroll taxes	2,517,170	2,368,854	2,170,564	148,316	6.3 %
Operating supplies and expenses	3,583,105	3,381,842	3,084,604	201,263	6.0 %
Purchased services	4,733,344	4,374,063	3,907,403	359,281	8.2 %
Insurance	379,726	327,258	319,357	52,468	16.0 %
Depreciation and amortization	1,259,349	1,164,732	1,199,639	94,617	8.1 %
Total operating expenses	20,959,567	19,453,006	18,141,416	1,506,561	7.7 %
Operating Income	1,076,168	1,956,621	1,563,309	(880,453)	-45.0%
Other Income (Expense)					
Interest earnings	989,118	666,306	552,573	322,812	48.4%
Contributions and other income	337,866	152,410	183,046	185,456	121.7%
Interest expense	(5,816)	(22,022)	(29,207)	16,206	73.6%
Increase in Net Assets	2,397,336	2,753,315	2,269,721	(355,979)	-12.9%
Net Assets - Beginning of year	31,821,199	29,067,884	26,798,163	2,753,315	9.5%
Net Assets - End of year	\$34,218,535	\$31,821,199	\$29,067,884	\$2,397,336	7.5%

Operating Revenue

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. In addition, certain local tax levies are considered operating.

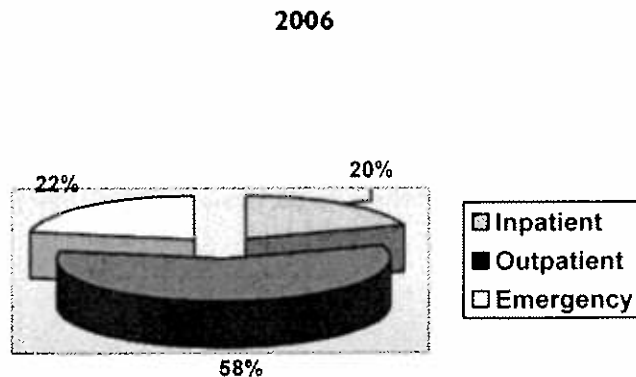
Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 3.5 percent. This was attributable to an increase in charges, expanded services in some departments, and increases in volumes for certain ancillary services. Additionally, improved coding and billing techniques have increased revenue in certain areas. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, Medical Mutual, and commercial carriers. These revenue deductions are 45 percent as a percentage of gross revenue.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

- Other operating revenue decreased 15.3 percent due in part to the elimination of the senior citizen meals and jail meal service.
- The following is a graphic illustration of operating revenues by source:



Operating Expenses

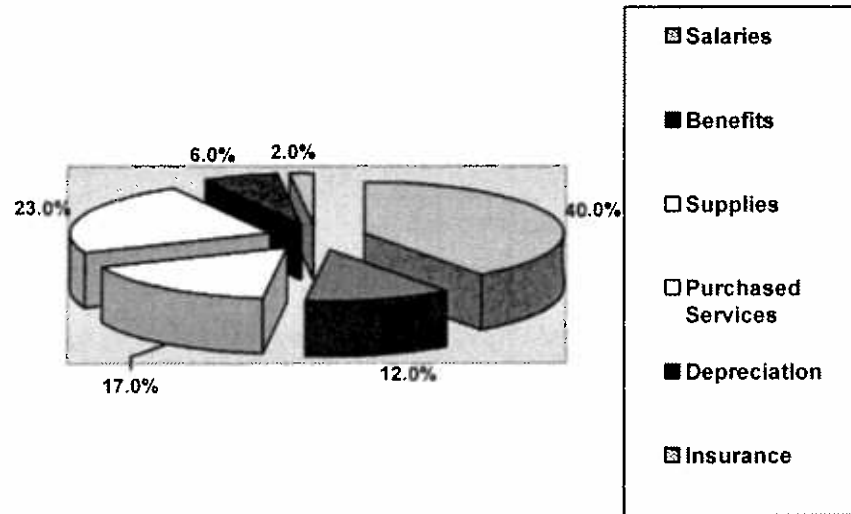
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 8.3 percent, due in part to annual adjustments and additional staff.
- Benefit costs increased 6.3 percent, due to increases in OPERS, health insurance, and workers' compensation premiums paid by the Hospital for covered employees.
- Supplies increased 6.0 percent, due in part to increased utilization of ancillary services.
- Insurance costs increased 16.0 percent, due in part to the second year of a change from an occurrence to a claims-made policy for malpractice coverage for the Hospital.
- Purchased services increased 8.2 percent, due in part to increased physician fees for EKG and ER and additional services in physical therapy, cardiology, and nuclear medicine.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

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



Other Revenue (Expense)

Nonoperating revenue and expenses are all sources and uses that are primarily nonexchange in nature. They would consist primarily of investment income and contributions.

There was an increase in nonoperating revenue from the prior year. This was due in part to an increase in investments, contributions, and a decrease in interest expense.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Statement of 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

	2006	2005	2004	2006/2005 Increase (Decrease)
Cash Provided By (Used In)				
Operating activities	\$2,176,720	\$ 3,264,786	\$2,630,809	\$ (1,088,066)
Capital and noncapital related financing activities	(2,291,498)	(600,553)	(1,420,496)	(1,690,945)
Investing activities	(1,360,278)	409,866	(3,907,574)	(1,770,144)
Net Increase (Decrease) in Cash	(1,475,056)	3,074,099	(2,697,261)	(4,549,155)
Cash - Beginning of year	4,099,542	1,025,443	3,722,704	3,074,099
Cash - End of year	\$ 2,624,486	\$ 4,099,542	\$ 1,025,443	\$ (1,475,056)

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

Cash provided by operating activities decreased \$1,088,066 over the prior year. This was due in part to a decrease in payments from patient accounts.

Capital purchases were greater than prior year, thereby contributing to a decrease in the available cash of \$1,690,945.

Investing activities were up from prior periods resulting in less available cash of \$1,770,144.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At December 31, 2006, the Hospital had \$18,524,083 invested in capital assets, which was netted against accumulated depreciation of \$11,428,174. Depreciation and amortization totaled \$1,259,349 for the current year compared to \$1,164,732 last year. Details of these assets for the past three years are shown below:

	2006	2005	2004	2006/2005 Increase
Land	\$45,000	\$45,000	\$45,000	\$ -
Land improvements	172,257	171,478	171,478	779
Buildings and improvements	8,508,763	8,337,306	8,265,414	171,457
Furniture, fixtures, and equipment	9,798,063	9,375,673	9,038,119	422,390
Total	\$18,524,083	\$17,929,457	\$17,520,011	\$594,626

Debt

At year end, the Hospital had no outstanding debt as compared to \$145,000 the previous year. The table below summarizes these amounts by type of debt instrument:

	2006	2005	2004	2006/2005 Decrease
Total leases and bonds	\$ 0	\$145,000	\$290,000	\$(145,000)

The Hospital has made strides to pay down its debt obligations and has done so in alignment with its prescribed debt schedules. More detailed information about the Hospital's long-term liabilities is presented in the footnotes to the financial statements.

Wyandot Memorial Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Economic Factors that Will Affect the Future

The economic position of the Hospital is closely tied to that of the local medical staff. Efforts to recruit physicians in 2004 were unsuccessful. Recruiting efforts were stepped up in 2005 and 2006 with the successful addition of three primary care physicians. The first started practice in April 2005, the second started in January 2006, and the third started in July 2006. This helped to offset the loss of two other physicians who left in May 2005 and June 2006. Recruitment of additional physicians is expected to continue in 2007. Much of 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 directors approved an average increase of 3 percent in the charge structure for the upcoming fiscal year.

Contacting the Hospital's Management

This financial report is intended to provide our member townships and bondholders 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 and Affiliate

Balance Sheet

	December 31, 2006		December 31, 2005	
	Hospital	Component Unit	Hospital	Component Unit
Assets				
Current Assets				
Cash and cash equivalents (Note 2)	\$ 2,406,690	\$ 458,110	\$ 4,059,460	\$ 1,154,577
Short-term investments (Note 2)	6,630,872	-	5,016,046	-
Accounts receivable (Note 4)	2,909,676	-	3,096,040	-
Estimated third-party payor settlements	400,000	-	-	-
Other current assets:				
Prepaid expenses	382,283	-	285,337	-
Inventory	427,961	-	418,418	-
Total current assets	13,157,482	458,110	12,875,301	1,154,577
Assets Limited as to Use (Note 3)	1,958,911	-	1,860,124	-
General Long-term Investments (Note 2)	13,755,285	1,583,573	12,941,788	697,609
Capital Assets (Note 5)	7,095,909	-	5,977,662	-
Total assets	\$ 35,967,587	\$ 2,041,683	\$ 33,654,875	\$ 1,852,186
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt (Note 7)	\$ -	\$ -	\$ 145,000	\$ -
Accounts payable	399,763	-	114,222	-
Estimated third-party payor settlements (Note 6)	-	-	390,000	-
Accrued compensated absences (Note 7)	624,451	-	557,936	-
Accrued liabilities and other (Note 8)	724,838	-	626,518	-
Total current liabilities	1,749,052	-	1,833,676	-
Net Assets				
Invested in capital assets - Net of related debt	7,095,909	-	5,832,662	-
Restricted:				
Nonexpendable permanent endowments	15,000	-	15,000	-
Restricted for capital acquisitions	1,943,911	1,125,008	1,845,124	1,125,008
Unrestricted	25,163,715	916,675	24,128,413	727,178
Total net assets	34,218,535	2,041,683	31,821,199	1,852,186
Total liabilities and net assets	\$ 35,967,587	\$ 2,041,683	\$ 33,654,875	\$ 1,852,186

Wyandot Memorial Hospital and Affiliate

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Unit	Hospital	Component Unit
Operating Revenues				
Net patient service revenue	\$ 21,490,681	\$ -	\$ 20,766,122	\$ -
Other	545,054	-	643,505	-
Total operating revenues	22,035,735	-	21,409,627	-
Operating Expenses				
Salaries and wages	8,486,873	-	7,836,257	-
Employee benefits and payroll taxes	2,517,170	-	2,368,854	-
Operating supplies and expenses	3,583,105	36,975	3,381,842	33,535
Purchased services	4,733,344	-	4,374,063	-
Insurance	379,726	-	327,258	-
Depreciation and amortization	1,259,349	-	1,164,732	-
Total operating expenses	20,959,567	36,975	19,453,006	33,535
Operating Income (Loss)	1,076,168	(36,975)	1,956,621	(33,535)
Other Income (Expense)				
Interest income	989,118	115,356	666,306	16,176
Contributions and other income	337,866	111,116	152,410	72,842
Interest expense	(5,816)	-	(22,022)	-
Total other income	1,321,168	226,472	796,694	89,018
Increase in Net Assets	2,397,336	189,497	2,753,315	55,483
Net Assets - Beginning of year	31,821,199	1,852,186	29,067,884	1,796,703
Net Assets - End of year	\$ 34,218,535	\$ 2,041,683	\$ 31,821,199	\$ 1,852,186

Wyandot Memorial Hospital and Affiliate

Statement of Cash Flows

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Unit	Hospital	Component Unit
Cash Flow from Operating Activities				
Cash received from patients and third-party payors	\$ 20,887,045	\$ -	\$ 21,193,356	\$ -
Cash paid to suppliers for services and goods	(8,316,171)	(31,975)	(8,693,052)	(28,535)
Cash paid to employees for services	(10,939,208)	(5,000)	(9,879,023)	(5,000)
Other receipts from operations	545,054	-	643,505	-
Net cash provided by (used in) operating activities	2,176,720	(36,975)	3,264,786	(33,535)
Cash Flow from Noncapital Financing Activities -				
Noncapital grants and contributions	337,866	111,116	152,410	72,842
Cash Flow from Investing Activities				
Purchase of investments	(7,220,372)	(974,235)	(8,465,634)	(97,716)
Proceeds from sale and maturities of investments	4,792,049	88,271	8,153,108	1,073,262
Increase in assets limited as to use	78,927	-	56,086	-
Investment income	989,118	115,356	666,306	16,716
Net cash provided by (used in) investing activities	(1,360,278)	(770,608)	409,866	991,722
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(2,478,548)	-	(585,941)	-
Interest paid on long-term debt	(5,816)	-	(22,022)	-
Repayment of bonds payable	(145,000)	-	(145,000)	-
Net cash used in capital and related financing activities	(2,629,364)	-	(752,963)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,475,056)	(696,467)	3,074,099	1,031,029
Cash and Cash Equivalents - Beginning of year	4,099,542	1,154,577	1,025,443	123,548
Cash and Cash Equivalents - End of year	\$ 2,624,486	\$ 458,110	\$ 4,099,542	\$ 1,154,577

Wyandot Memorial Hospital and Affiliate

Statement of Cash Flows (Continued)

	Year Ended			
	December 31, 2006		December 31, 2005	
	Hospital	Component Unit	Hospital	Component Unit
Reconciliation of Operating Income (Loss) to				
Net Cash from Operating Activities				
Operating income (loss)	\$ 1,076,168	\$ (36,975)	\$ 1,956,621	\$ (33,535)
Adjustments to reconcile operating income				
(loss) to net cash from operating activities:				
Depreciation and amortization	1,259,349	-	1,164,732	-
Provision for bad debts	1,357,860	-	1,534,273	-
Loss on disposal of assets	100,952	-	-	-
Changes in assets and liabilities:				
Patient accounts receivable	(1,171,496)	-	(1,497,039)	-
Inventories	(9,543)	-	(27,477)	-
Prepaid expenses and others	(96,946)	-	(18,732)	-
Accounts payable	(285,541)	-	(563,680)	-
Accrued expenses	(54,083)	-	716,088	-
Net cash provided by (used in) operating activities	<u>\$ 2,176,720</u>	<u>\$ (36,975)</u>	<u>\$ 3,264,786</u>	<u>\$ (33,535)</u>
Supplemental Cash Flow Information - Cash and cash equivalents				
Included in current assets	\$ 2,406,690	\$ 458,110	\$ 4,059,460	\$ 1,154,577
Included in assets limited as to use	217,796	-	40,082	-

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note I - Nature of Business and Significant Accounting Policies

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

Wyandot Memorial Hospital (the "Hospital") 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 hospital 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 doctor of medicine. The board of governors consists of a total of seven members who oversee the daily operations of the Hospital. The Hospital is a political subdivision of the State of Ohio and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Hospital was formed under the provisions of the Ohio Revised Code.

Wyandot Health Foundation, Inc. (the "Foundation") was established on June 10, 1985 per authority of the Ohio Revised Code. The Foundation is a nonprofit entity operated for the benefit of the Hospital. The Foundation is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. 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.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Organization follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Organization's financial activities. The Organization also applies the Financial Accounting Standard Board Statements and Interpretations issued prior to November 30, 1989 to the extent that they do not conflict with or contradict GASB pronouncements; however, the Hospital has elected not to apply FASB statements issued after November 30, 1989.

Cash and Cash Equivalents - Cash and cash equivalents are defined as cash and short-term, highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents included in assets limited as to use are considered cash and cash equivalents for the purpose of the statement of cash flows.

Investments - Investments consist of certificates of deposit, money market accounts, and commercial and governmental bonds. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis.

Assets Limited as to Use - Assets limited as to use consist of invested funds designated by the Organization's board of governors for the replacement, improvement, and expansion of the Organization's facilities and invested funds designated by the joint township board of directors restricted in connection with the Organization's general obligation bonds. Assets limited as to use also include funds whose use is specified by the donor, as well as permanently restricted endowments, the earnings of which can be used for certain purposes as specified by the donor.

Unamortized Bond Issuance Costs - Costs incurred in obtaining long-term bond financing are being amortized over the term of the obligations. Amortization expense totaled \$5,720 in 2005. The bonds were fully amortized at December 31, 2005; therefore, there was no amortization expense for 2006.

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 Organization-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 Organization 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 Organization 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.

Classification of Net Assets - Net assets of the Organization are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Restricted Resources - When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

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.

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Operating Revenue and Expenses - The statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Organization's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income from Operations - For the purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Charity Care - The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Charity care provided, based on charges at established rates, was approximately \$702,000 and \$529,000 in 2006 and 2005, respectively.

Pension Plan - Substantially all of the Organization's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The Organization funds pension costs accrued, based on contribution rates determined by OPERS.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support.

Investment Income - Investment income on unrestricted and restricted funds are recorded as nonoperating gains when received.

Reclassification - Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

Note 2 - Deposits and Investments

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 Organization has designated four banks for the deposit of its funds. An investment policy has not been filed with the auditor of state on behalf of the Organization. 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).

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

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

Active Funds - Active funds are required to be kept in a "cash" or "near cash" status for immediate use by the system. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive Funds - Inactive funds are not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including but not limited to passbook accounts.

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

1. Bonds, notes, or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit, maturing not more than one year from date of deposit, or by savings or deposit accounts, including but not limited to passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio state treasurer's investment pool (STAR Ohio)
7. Commercial paper and banker's 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

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

Protection of the Organization'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 Organization and must be purchased with the expectation that it will be held to maturity.

The Organization'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 does not have a deposit policy for custodial credit risk. At December 31, 2006, the Hospital had \$21,663,892 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and collateralized by various securities; the component unit had approximately \$1,227,450 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. As a result, the Organization evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

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 does not have a policy for custodial credit risk. At December 31, 2006, the following investment securities 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	\$ 202,328	Counterparty
Corporate bonds	377,359	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 does not have an investment policy that addresses interest rate risk. At December 31, 2006, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government agency bonds	\$ 202,328	4.57 years
Corporate bonds	377,359	2.94 years

Credit Risk

The Organization does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government agency bonds	\$ 202,328	AAA	Standard & Poor's
Amer Gen. Fin. Corp. bonds	62,764	A+	Standard & Poor's
Ford Motor Credit Comp. bonds	59,802	B	Standard & Poor's
General Motors Accep. Corp. bonds	66,221	BB+	Standard & Poor's
Household Finance Co. bonds	63,870	AA-	Standard & Poor's
Princ Life Inc. Fundings bonds	62,450	AA	Standard & Poor's
Prudential Financial bonds	62,252	A	Standard & Poor's

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

Essentially all of the investments of the Hospital are held in certificates of deposit at December 31, 2006 and 2005. Essentially all of the investments of the component unit are held in commercial and governmental bonds at December 31, 2006 and 2005.

Note 3 - Assets Limited as to Use

Assets limited as to use consist of the following:

	<u>2006</u>	<u>2005</u>
Board-designated for capital improvements and professional liability:		
Cash and cash equivalents	\$ 217,796	\$ 40,082
Certificates of deposit	1,336,513	1,280,582
Money market accounts	<u>213,638</u>	<u>206,574</u>
Total board-designated for capital improvements and professional liability	1,767,947	1,527,238
Donor-designated for capital improvements and other purposes:		
Principal of permanent endowment	18,933	18,010
Investments held by trustee in connection with debt service - Money market accounts	<u>157,031</u>	<u>299,876</u>
Total assets limited as to use	<u>\$ 1,958,911</u>	<u>\$ 1,860,124</u>

Note 4 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below as follows:

	<u>2006</u>	<u>2005</u>
Patient accounts receivable	\$ 5,958,676	\$ 5,609,040
Less:		
Allowance for uncollectible accounts	(875,000)	(694,000)
Allowance for contractual adjustments	<u>(2,174,000)</u>	<u>(1,819,000)</u>
Net patient accounts receivable	<u>\$ 2,909,676</u>	<u>\$ 3,096,040</u>

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 4 - Patient Accounts Receivable (Continued)

The Organization 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 was as follows:

	Percent	
	2006	2005
Medicare	38	35
Medicaid	3	5
Commercial insurance and HMOs	34	37
Self-pay	25	23
Total	100	100

Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2006 are summarized below:

	2005	Additions	Transfers	Retirements	2006	Depreciable Life - Years
Land	\$ 45,000	\$ -	\$ -	\$ -	\$ 45,000	
Land improvements	171,478	14,855	-	(14,076)	172,257	5-25
Building and building improvements	7,538,772	95,537	-	(54,294)	7,580,015	15-40
Building service equipment	798,534	24,446	-	(6,678)	816,302	5-20
Major movable equipment	9,375,673	2,231,264	-	(1,808,874)	9,798,063	3-25
CIP	-	112,446	-	-	112,446	
Total	17,929,457	2,478,548	-	(1,883,922)	18,524,083	
Less accumulated depreciation:						
Land improvements	155,515	5,087	-	(14,076)	146,526	
Building and building improvements	4,303,904	274,655	-	(54,291)	4,524,268	
Building service equipment	722,979	15,011	-	(6,678)	731,312	
Major movable equipment	6,769,397	964,596	-	(1,707,925)	6,026,068	
Total	11,951,795	1,259,349	-	(1,782,970)	11,428,174	
Net carrying amount	\$ 5,977,662	\$ 1,219,199	\$ -	\$ (100,952)	\$ 7,095,909	

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 5 - Capital Assets (Continued)

Cost of capital assets and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land	\$ 45,000	\$ -	\$ -	\$ -	\$ 45,000	
Land improvements	171,478	-	-	-	171,478	5-25
Building and building improvements	7,487,480	51,292	-	-	7,538,772	15-40
Building service equipment	777,934	20,600	-	-	798,534	5-20
Major movable equipment	8,424,793	514,049	613,326	(176,495)	9,375,673	3-25
Major movable equipment - Capital leases	613,326	-	(613,326)	-	-	5
Total	17,520,011	585,941	-	(176,495)	17,929,457	
Less accumulated depreciation:						
Land improvements	149,285	6,230	-	-	155,515	
Building and building improvements	4,034,096	269,808	-	-	4,303,904	
Building service equipment	710,436	12,543	-	-	722,979	
Major movable equipment	5,456,415	876,151	613,326	(176,495)	6,769,397	
Major movable equipment - Capital leases	613,326	-	(613,326)	-	-	
Total	10,963,558	1,164,732	-	(176,495)	11,951,795	
Net carrying amount	\$ 6,556,453	\$ (578,791)	\$ -	\$ -	\$ 5,977,662	

Note 6 - Cost Report Settlements

Approximately 51 percent of the Organization's revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors is as follows:

- **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 will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 6 - Cost Report Settlements (Continued)

The Medicaid payment system is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates or the payment system itself could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

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

Note 7 - Long-term Debt and Other Noncurrent Liabilities

Debt outstanding at December 31, 2005 consisted of general obligation bonds for building construction issues. General obligation bonds are direct obligations of the joint township board of trustees for which its full faith, credit, and resources are pledged and are payable from taxes levied on all property in the Crane, Mifflin, Pitt, and Salem Townships. General obligation bonds of \$2,200,000 were issued in January 1991 in connection with the building expansion and renovation project. Such bonds bear interest at 6.8 percent in 2005 with a final principal payment of \$145,000 paid during 2006.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 7 - Long-term Debt and Other Noncurrent Liabilities (Continued)

Long-term debt activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Current Year Additions	Hospital Current Year Reductions	Ending Balance	Current Portion
Leases and bonds payable -					
Bonds payable - 1990 issue	\$ 145,000	\$ -	\$ (145,000)	\$ -	\$ -
Compensated absences	557,936	870,977	(804,462)	624,451	624,451
Total leases, bonds, and other liabilities	<u>\$ 702,936</u>	<u>\$ 870,977</u>	<u>\$ (949,462)</u>	<u>\$ 624,451</u>	<u>\$ 624,451</u>

Long-term debt activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Current Year Additions	Hospital Current Year Reductions	Ending Balance	Current Portion
Leases and bonds payable -					
Bonds payable - 1990 issue	\$ 290,000	\$ -	\$ (145,000)	\$ 145,000	\$ 145,000
Compensated absences	451,489	903,048	(796,601)	557,936	557,936
Total leases, bonds, and loans payable	<u>\$ 741,489</u>	<u>\$ 903,048</u>	<u>\$ (941,601)</u>	<u>\$ 702,936</u>	<u>\$ 702,936</u>

Note 8 - Accrued Liabilities and Other

The details of accrued liabilities at December 31, 2006 and 2005 are as follows:

	2006	2005
Compensation and related items	\$ 232,659	\$ 246,184
Pension	108,513	92,367
Insurance premiums and accruals	383,666	287,967
Total accrued liabilities	<u>\$ 724,838</u>	<u>\$ 626,518</u>

Compensated absences represent the estimated liability to be paid to employees under the Organization's sick, vacation, holiday, and compensatory time policies.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 9 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits, annual cost-of-living adjustments, and postretirement health care benefits to qualifying members of both the traditional and the combined plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2006 member contribution rate for members of local government units was 9.00 percent of their annual covered salary. The employer contribution rate for local government units of covered payroll was 13.70 percent in 2006 and 13.55 percent in 2005 and 2004. The Hospital's contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were approximately \$1,160,000, \$1,042,000, and \$1,002,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Postretirement Benefits - In order to qualify for postretirement health care coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS is considered an other postemployment benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate for local government employer units of covered payroll was 13.70 percent in 2006 and 13.55 percent in 2005. Of this amount, 4.50 percent was the portion that was used to fund health care during both 2006 and 2005. The portion of the employer's contribution used to fund postemployment benefits for 2006 and 2005 was \$381,099 and \$308,000, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 9 - Defined Benefit Pension Plan (Continued)

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor. The investment return assumption rate for 2005 was 6.50 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 6.00 percent for the next nine years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on OPERS' latest actuarial review performed as of December 31, 2005.

The number of active contributing participants in the OPERS Traditional and Combined Plans in the state of Ohio at December 31, 2005 was 369,214. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,809. As of December 31, 2005, the actuarial value of OPERS' net assets available for OPEB was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

Health Care Plan - On September 9, 2004, the OPERS retirement board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of HCPP, member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 10 - Deferred Compensation Plan

All full-time employees of the Organization may participate in a deferred compensation plan created by the State of Ohio under the provisions of Internal Revenue Code (IRC) Section 457, *Deferred Compensation Plans with Respect to Service for State and Local Governments*. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

Wyandot Memorial Hospital and Affiliate

Notes to Financial Statements December 31, 2006 and 2005

Note 11 - Medical Malpractice Claims

The Organization is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Organization has purchased commercial insurance for malpractice, general liability, employee medical, and workers' compensation claims.

The Organization is insured against medical malpractice claims under a claims-made based policy, whereby claims are covered if the Organization was insured during the year that the incident occurred. Under the terms of the policy, the Organization bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in a policy year. In addition, the Organization has an umbrella policy with an additional \$7,000,000 of coverage.

While there is pending litigation against the Organization, management is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Organization's cost for such claims for the year, and it has been charged to operations as current expense. There have been no claims settled in the last five years that have exceeded insured limits.

The Organization is exposed to various risks of loss related to property and general losses, as well as medical benefits provided by employees. The Organization has purchased commercial insurance coverage of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

Additional Information

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

Report Letter on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Governors
Wyandot Memorial Hospital and Affiliate

We have audited the financial statements of Wyandot Memorial Hospital and Affiliate as of and for the year December 31, 2006 and have issued our report thereon dated May 8, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wyandot Memorial Hospital and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wyandot Memorial Hospital and Affiliate's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Governors
Wyandot Memorial Hospital and Affiliate

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wyandot Memorial Hospital and Affiliate'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 matters that we reported to management of Wyandot Memorial Hospital and Affiliate in a separate letter dated May 8, 2007.

The report is intended solely for the information and use of the Auditor of the State of Ohio, Board of Governors of Wyandot Memorial Hospital, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

May 8, 2007



Mary Taylor, CPA
Auditor of State

WYANDOT MEMORIAL HOSPITAL AND AFFILIATE

WYANDOT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 26, 2007**