

# **Wyandot Memorial Hospital and Affiliate**

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**Financial Report  
with Additional Information  
December 31, 2005**





**Auditor of State  
Betty Montgomery**

Board of Directors  
Wyandot Memorial Hospital and Affiliate  
855 North Sandusky Avenue  
Upper Sandusky, Ohio 43351

We have reviewed the *Independent Auditor's Report* of the Wyandot Memorial Hospital and Affiliate, Wyandot County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2005 through December 31, 2005. 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 and Affiliate is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 1, 2006

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# Wyandot Memorial Hospital and Affiliate

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-11
<b>Financial Statements</b>	
Balance Sheet	12
Statement of Revenue, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14-15
Notes to Financial Statements	16-31
<b>Additional Information</b>	32
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>; No Reportable Instances of Noncompliance of Other Matters</b>	33-35



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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, 2005 and 2004 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, 2005 and 2004 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 April 5, 2006 on our consideration of the 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, and grant agreements. 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.



A worldwide association of independent accounting firms

To the Board of Governors  
Wyandot Memorial Hospital and Affiliate

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*

April 5, 2006

# 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, 2005. 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, 2005. Current assets increased by \$2,282,149, or 21.5 percent, and general long-term investments increased by \$1,191,684, or 10.1 percent, from the prior year. This was in part due to an increase in cash and cash equivalents, inventories, and long-term investments. In total, the Hospital's net assets increased by \$2,753,315, or 9.5 percent, from the previous year. The increased net assets were primarily caused by a significant 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, 2005, 2004, and 2003:

	Year Ended December 31		
	2005	2004	2003
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	\$ 5,832,662	\$ 6,260,733	\$ 5,880,314
Restricted for debt service and other purposes	1,860,124	1,994,443	2,095,734
Unrestricted	24,128,413	20,812,708	18,822,115

In the year ended December 31, 2005, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$2,753,315.

# 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 nonfinancial 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, 2005:

	December 31			2005/2004 Change	
	2005	2004	2003	Amount	Percent
<b>Assets</b>					
Current assets	\$ 12,875,301	\$ 10,593,152	\$ 10,323,745	\$ 2,282,149	21.5 %
Assets limited as to use	1,860,124	1,994,443	2,095,734	(134,319)	-6.7%
General long-term investments	12,941,788	11,750,104	9,796,988	1,191,684	10.1%
Capital assets	5,977,662	6,556,453	6,407,218	(578,791)	-8.8 %
<b>Total assets</b>	<b>\$ 33,654,875</b>	<b>\$ 30,894,152</b>	<b>\$28,623,685</b>	<b>\$ 2,760,723</b>	<b>8.9%</b>
<b>Liabilities</b>					
Current liabilities	\$ 1,275,740	\$ 1,229,779	\$ 1,118,272	\$ 45,961	3.7 %
Long-term liabilities	-	145,000	290,000	(145,000)	-100.0 %
Compensated absences	557,936	451,489	417,250	106,447	23.6%
<b>Total liabilities</b>	<b>1,833,676</b>	<b>1,826,268</b>	<b>1,825,522</b>	<b>7,408</b>	<b>0.4 %</b>
<b>Net Assets</b>					
Invested in capital assets - Net of debt	5,832,662	6,260,733	5,880,314	(428,071)	-6.8 %
Restricted assets	1,860,124	1,994,443	2,095,734	(134,319)	-6.7 %
Unrestricted	24,128,413	20,812,708	18,822,115	3,315,705	15.9 %
<b>Total net assets</b>	<b>31,821,199</b>	<b>29,067,884</b>	<b>26,798,163</b>	<b>2,753,315</b>	<b>9.5 %</b>
<b>Total liabilities and net assets</b>	<b>\$ 33,654,875</b>	<b>\$ 30,894,152</b>	<b>\$28,623,685</b>	<b>\$ 2,760,723</b>	<b>8.9 %</b>

The primary change in the statement of net assets relates to a significant increase in restricted and unrestricted net assets. Operating results were favorable and contributed to the 9.5 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:

	Year Ended December 31			2005/2004 Change	
	2005	2004	2003	Amount	Percent
<b>Operating Revenue</b>					
Net patient service revenue	\$20,766,122	\$19,112,585	\$18,518,379	\$1,653,537	8.7 %
Other	643,505	592,140	501,082	51,365	8.7 %
Total operating revenue	21,409,627	19,704,725	19,019,461	1,704,902	8.7 %
<b>Operating Expenses</b>					
Salaries and wages	7,836,257	7,459,849	7,099,370	376,408	5.0 %
Employee benefits and payroll taxes	2,368,854	2,170,564	1,892,281	198,290	9.1 %
Operating supplies and expenses	3,381,842	3,084,604	3,052,221	297,238	9.6 %
Purchased services	4,374,063	3,907,403	3,723,121	466,660	11.9 %
Insurance	327,258	319,357	268,646	7,901	2.5 %
Depreciation and amortization	1,164,732	1,199,639	1,158,039	(34,907)	-2.9 %
Total operating expenses	19,453,006	18,141,416	17,193,678	1,311,590	7.2 %
<b>Operating Income</b>	1,956,621	1,563,309	1,825,783	393,312	25.2%
<b>Other Revenue (Expense)</b>					
Interest earnings	666,306	552,573	518,523	113,733	20.6%
Contributions and other income	152,410	183,046	78,537	(30,636)	-16.7%
Interest expense	(22,022)	(29,207)	(41,865)	7,185	24.6%
<b>Increase in Net Assets</b>	2,753,315	2,269,721	2,380,978	483,594	21.3%
<b>Net Assets - Beginning of year</b>	29,067,884	26,798,163	24,417,185	2,269,721	8.5%
<b>Net Assets - End of year</b>	<b>\$ 31,821,199</b>	<b>\$ 29,067,884</b>	<b>\$26,798,163</b>	<b>\$2,753,313</b>	9.5%

### 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:

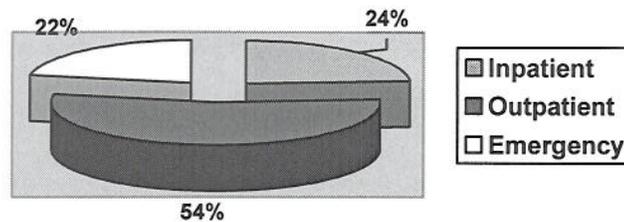
- Net patient service revenue increased 8.7 percent. This was attributable to an increase in charges, expanded services in some departments, and increases in volumes for certain ancillary services. Additionally, improved coding and billing techniques have increased revenue in certain areas. Gross patient 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 remained at 46 percent as a percentage of gross revenue.
- Other operating revenue increased 8.7 percent due in part to an increase in senior citizen meals and industrial physicals.

# Wyandot Memorial Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

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

2005



### Operating Expenses

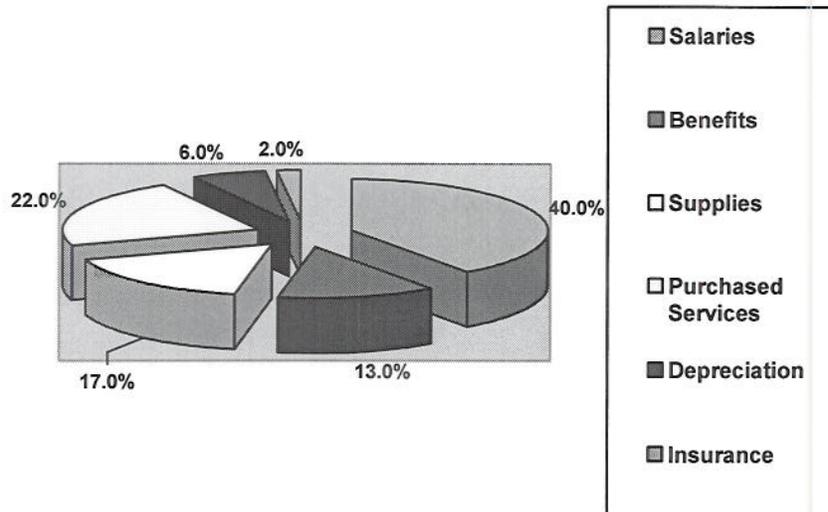
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 5.0 percent, due in part to annual adjustments.
- Benefit costs increased 9.1 percent, due to increases in health insurance and workers' compensation premiums paid by the Hospital for covered employees.
- Supplies increased 9.6 percent, due in part to increased utilization of ancillary services.
- Insurance costs increased only 2.5 percent, due in part to a change from an occurrence to a claims made policy for malpractice coverage for the hospital.
- Purchased services increased 11.9 percent, due in part to increased physician fees for anesthesiology and EKG and physical therapy fees.

# 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 donations.

There was an increase in nonoperating revenue from the prior year. This was due in part to an increase in investments.

# 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

	2005	2004	2003	2005/2004 Increase (Decrease)
<b>Cash Provided By (Used In)</b>				
Operating activities	\$ 3,264,786	\$ 2,630,809	\$ 3,889,041	\$ 633,977
Capital and noncapital related financing activities	(600,553)	(1,420,496)	(1,054,696)	819,943
Investing activities	409,866	(3,907,574)	(2,518,267)	4,317,440
<b>Net Increase (Decrease) in Cash</b>	<b>3,074,099</b>	<b>(2,697,261)</b>	<b>316,078</b>	<b>5,771,360</b>
<b>Cash - Beginning of year</b>	<b>1,025,443</b>	<b>3,722,704</b>	<b>3,406,626</b>	<b>(2,697,261)</b>
<b>Cash - End of year</b>	<b>\$ 4,099,542</b>	<b>\$ 1,025,443</b>	<b>\$ 3,722,704</b>	<b>\$ 3,074,099</b>

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 \$633,977 over the prior year. This was due in part to an increase in payments from patient accounts.

Capital purchases were less than prior year, thereby contributing to an increase in the available cash of \$819,943.

Investing activities were down from prior periods resulting in additional available cash of \$4,317,440.

# Wyandot Memorial Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

#### Capital Assets

At December 31, 2005, the Hospital had \$17,929,457 invested in capital assets, which was netted against accumulated depreciation of \$11,951,795. Depreciation and amortization totaled \$1,159,012 for the current year compared to \$1,193,915 last year. Details of these assets for the past three years are shown below:

	2005	2004	2003	2005/2004 Increase
Land	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
Land improvements	171,478	171,478	171,478	-
Buildings and improvements	8,337,306	8,265,414	8,250,985	71,892
Furniture, fixtures, and equipment	9,375,673	9,038,119	7,729,159	337,554
Total	<u>\$ 17,929,457</u>	<u>\$ 17,520,011</u>	<u>\$ 16,196,622</u>	<u>\$ 409,446</u>

#### Debt

At year end, the Hospital had \$145,000 in debt outstanding as compared to \$290,000 the previous year. The table below summarizes these amounts by type of debt instrument:

	2005	2004	2003	2005/2004 Decrease
Total leases and bonds	<u>\$ 145,000</u>	<u>\$ 290,000</u>	<u>\$ 515,461</u>	<u>\$ (145,000)</u>

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**

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## **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. There was a loss of several medical staff during 2003 and efforts to recruit replacements in 2004 were unsuccessful. Recruiting efforts were stepped up in 2005 with the successful addition of two primary care physicians. The first started practice in April 2005, while the second started in January 2006. This helped to offset the loss of another physician who left in May 2005. Recruitment of additional physicians is expected to continue in 2006. 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 will now be 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 District'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, 2005		December 31, 2004	
	Hospital	Component Unit	Hospital	Component Unit
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents (Note 2)	\$ 4,059,460	\$ 1,154,577	\$ 969,558	\$ 123,548
Short-term investments (Note 2)	5,016,046	-	5,832,774	201,838
Accounts receivable (Note 4)	3,096,040	-	3,133,274	-
Other current assets:				
Prepaid expenses	285,337	-	266,605	-
Inventory	418,418	-	390,941	-
Total current assets	12,875,301	1,154,577	10,593,152	325,386
<b>Assets Limited as to Use</b> (Note 3)	1,860,124	-	1,994,443	-
<b>General Long-term Investments</b> (Note 2)	12,941,788	697,609	11,750,104	1,471,317
<b>Capital Assets</b> (Note 5)	5,977,662	-	6,550,733	-
<b>Other Assets - Bond issue costs</b>	-	-	5,720	-
Total assets	<u>\$ 33,654,875</u>	<u>\$ 1,852,186</u>	<u>\$ 30,894,152</u>	<u>\$ 1,796,703</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current maturities of long-term debt (Note 7)	\$ 145,000	\$ -	\$ 145,000	\$ -
Accounts payable	114,222	-	677,902	-
Estimated third-party payor settlements (Note 6)	390,000	-	-	-
Accrued liabilities and other	626,518	-	406,877	-
Total current liabilities	1,275,740	-	1,229,779	-
<b>Long-term Debt</b> (Note 7)	-	-	145,000	-
<b>Accrued Compensated Absences</b> (Note 7)	557,936	-	451,489	-
Total liabilities	1,833,676	-	1,826,268	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	5,832,662	-	6,260,733	-
Restricted:				
Nonexpendable permanent endowments	15,000	-	15,000	-
Restricted for capital acquisitions	1,845,124	1,125,008	1,979,443	1,125,008
Unrestricted	24,128,413	727,178	20,812,708	671,695
Total net assets	31,821,199	1,852,186	29,067,884	1,796,703
Total liabilities and net assets	<u>\$ 33,654,875</u>	<u>\$ 1,852,186</u>	<u>\$ 30,894,152</u>	<u>\$ 1,796,703</u>

# Wyandot Memorial Hospital and Affiliate

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended			
	December 31, 2005		December 31, 2004	
	Hospital	Component Unit	Hospital	Component Unit
<b>Operating Revenues</b>				
Net patient service revenue (Note 9)	\$ 20,766,122	\$ -	\$ 19,112,585	\$ -
Other	643,505	-	592,140	-
Total operating revenues	21,409,627	-	19,704,725	-
<b>Operating Expenses</b>				
Salaries and wages	7,836,257	-	7,459,849	-
Employee benefits and payroll taxes	2,368,854	5,000	2,170,564	5,000
Operating supplies and expenses	3,381,842	28,535	3,084,604	41,876
Purchased services	4,374,063	-	3,907,403	-
Insurance	327,258	-	319,357	-
Depreciation and amortization	1,164,732	-	1,199,639	-
Total operating expenses	19,453,006	33,535	18,141,416	46,876
<b>Operating Income (Loss)</b>	1,956,621	(33,535)	1,563,309	(46,876)
<b>Other Income (Expense)</b>				
Interest income	666,306	16,176	552,573	33,448
Contributions and other income	152,410	72,842	183,046	598,612
Interest expense	(22,022)	-	(29,207)	-
Total other income	796,694	89,018	706,412	632,060
<b>Increase in Net Assets</b>	2,753,315	55,483	2,269,721	585,184
<b>Net Assets - Beginning of year</b>	29,067,884	1,796,703	26,798,163	1,211,519
<b>Net Assets - End of year</b>	<b>\$ 31,821,199</b>	<b>\$ 1,852,186</b>	<b>\$ 29,067,884</b>	<b>\$ 1,796,703</b>

# Wyandot Memorial Hospital and Affiliate

## Statement of Cash Flows

	Year Ended			
	December 31, 2005		December 31, 2004	
	Hospital	Component Unit	Hospital	Component Unit
<b>Cash Flow from Operating Activities</b>				
Cash received from patients and third-party payors	\$ 21,193,356	\$ -	\$ 18,798,733	\$ -
Cash paid to suppliers for services and goods	(8,693,052)	(28,535)	(7,092,908)	(41,876)
Cash paid to employees for services	(9,879,023)	(5,000)	(9,667,156)	(5,000)
Other receipts from operations	643,505	-	592,140	-
Net cash provided by (used in) operating activities	3,264,786	(33,535)	2,630,809	(46,876)
<b>Cash Flow from Noncapital Financing Activities -</b>				
Noncapital grants and contributions	152,410	72,842	183,046	598,612
<b>Cash Flow from Investing Activities</b>				
Purchase of investments	(8,465,634)	(97,716)	(7,770,874)	(686,684)
Proceeds from sale and maturities of investments	8,153,108	1,073,262	3,346,162	-
Increase (decrease) in assets limited as to use	56,086	-	(35,435)	-
Investment income	666,306	16,176	552,573	33,448
Net cash provided by (used in) investing activities	409,866	991,722	(3,907,574)	(653,236)
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(585,941)	-	(1,348,874)	-
Interest paid on long-term debt	(22,022)	-	(29,207)	-
Repayment of bonds payable	(145,000)	-	(145,000)	-
Payments on capital lease obligations	-	-	(80,461)	-
Net cash used in capital and related financing activities	(752,963)	-	(1,603,542)	-
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>3,074,099</b>	<b>1,031,029</b>	<b>(2,697,261)</b>	<b>(101,500)</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>1,025,443</b>	<b>123,548</b>	<b>3,722,704</b>	<b>225,048</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,099,542</b>	<b>\$ 1,154,577</b>	<b>\$ 1,025,443</b>	<b>\$ 123,548</b>

# Wyandot Memorial Hospital and Affiliate

## Statement of Cash Flows (Continued)

	Year Ended			
	December 31, 2005		December 31, 2004	
	Hospital	Component Unit	Hospital	Component Unit
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 1,956,621	\$ (33,535)	\$ 1,563,309	\$ (46,876)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	1,164,732	-	1,199,639	-
Provision for bad debts	1,534,273	-	1,030,514	-
Changes in assets and liabilities:				
Patient accounts receivable	(1,497,039)	-	(1,344,366)	-
Inventories	(27,477)	-	(31,801)	-
Prepaid expenses and others	(18,732)	-	(12,693)	-
Accounts payable	(563,680)	-	262,950	-
Accrued expenses	716,088	-	(36,743)	-
Net cash provided by (used in) operating activities	<u>\$ 3,264,786</u>	<u>\$ (33,535)</u>	<u>\$ 2,630,809</u>	<u>\$ (46,876)</u>
<b>Supplemental Cash Flow Information - Cash and cash equivalents</b>				
Included in current assets	\$ 4,059,460	\$ 1,154,577	\$ 969,558	\$ 123,548
Included in assets limited as to use	40,082	-	55,835	-
Total cash and cash equivalents	<u>\$ 4,099,542</u>	<u>\$ 1,154,577</u>	<u>\$ 1,025,413</u>	<u>\$ 123,548</u>

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### 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 (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, 2005 and 2004

### 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 using the straight-line method. Amortization expense totaled \$5,720 and \$5,723 in 2005 and 2004, respectively.

**Compensated Absences** - Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service. Employees also earn holiday and sick leave benefits at a 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

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## Notes to Financial Statements December 31, 2005 and 2004

### Note I - 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 of 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.

# Wyandot Memorial Hospital and Affiliate

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## Notes to Financial Statements December 31, 2005 and 2004

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

**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.

**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.

**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 2004 amounts have been reclassified to conform to the 2005 presentation.

# Wyandot Memorial Hospital and Affiliate

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## Notes to Financial Statements December 31, 2005 and 2004

### 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).

Statutes require the classification of funds held by the system 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

# Wyandot Memorial Hospital and Affiliate

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits and Investments (Continued)

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

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

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits and Investments (Continued)

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 government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At December 31, 2005, the Hospital had \$20,545,181 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and collateralized by various securities; the component unit had approximately \$899,000 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.

#### 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, 2005, 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 agencies' bonds	\$ 197,524	Counterparty
Corporate bonds	355,977	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, 2005, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U. S. government agencies' bonds	\$ 197,524	5.05 years
Corporate bonds	355,977	3.90 years

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits and Investments (Continued)

#### 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 agencies' bonds	\$ 197,524	AAA	Standard & Poor's
Amer Gen. Fin. Corp. bonds	62,368	A+	Standard & Poor's
Ford Motor Credit Comp. bonds	49,094	BB-	Standard & Poor's
General Motors Accep. Corp. bonds	55,398	BB	Standard & Poor's
Household Finance Co. bonds	63,084	A	Standard & Poor's
Princ Life Inc. Fundings bonds	63,422	AA	Standard & Poor's
Prudential Financial bonds	62,611	A-	Standard & Poor's

Essentially all of the investments of the Hospital are held in certificates of deposit at December 31, 2005 and 2004. Essentially all of the investments of the component unit are held in commercial and governmental bonds at December 31, 2005 and 2004.

### Note 3 - Assets Limited as to Use

Assets limited as to use consist of the following:

	2005	2004
Board-designated for capital improvements and professional liability:		
Cash and cash equivalents	\$ 40,082	\$ 55,885
Certificates of deposit	1,280,582	1,244,509
Money market accounts	206,574	204,050
Total board-designated for capital improvements and professional liability	1,527,238	1,504,444
Donor-designated for capital improvements and other purposes:		
Principal of permanent endowment	18,010	17,343
Investments held by trustee in connection with debt service - Money market accounts	15,000	15,000
Total donor-designated for capital improvements and other purposes	299,876	457,656
Total assets limited as to use	\$ 1,860,124	\$ 1,994,443

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 4 - Patient Accounts Receivable

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

	2005	2004
Patient accounts receivable	\$ 5,609,040	\$ 5,233,574
Less:		
Allowance of uncollectible accounts	(694,000)	(515,400)
Allowance for contractual adjustments	(1,819,000)	(1,584,900)
Net patient accounts receivable	<u>\$ 3,096,040</u>	<u>\$ 3,133,274</u>

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	
	2005	2004
Medicare	35	31
Medicaid	5	4
Commercial insurance and HMOs	37	39
Self-pay	23	26
Total	<u>100</u>	<u>100</u>

### Note 5 - Capital Assets

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	<u>17,520,011</u>	<u>585,941</u>	<u>-</u>	<u>(176,495)</u>	<u>17,929,457</u>	
Less accumulated depreciation:						
Land improvements	149,285	6,230	-	-	155,515	
Building and building improvements	4,039,816	264,088	-	-	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	<u>10,969,278</u>	<u>1,159,012</u>	<u>-</u>	<u>(176,495)</u>	<u>11,951,795</u>	
Net carrying amount	<u>\$ 6,550,733</u>	<u>\$ (573,071)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,977,662</u>	

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 5 - Capital Assets (Continued)

Cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land	\$ 45,000	\$ -	\$ -	\$ -	\$ 45,000	
Land improvements	171,478	-	-	-	171,478	5-25
Building and building improvements	7,473,051	14,429	-	-	7,487,480	15-40
Building service equipment	777,934	-	-	-	777,934	5-20
Major movable equipment	7,115,833	1,342,555	-	(33,595)	8,424,793	3-25
Major movable equipment - Capital leases	613,326	-	-	-	613,326	5
<b>Total</b>	<b>16,196,622</b>	<b>1,356,984</b>	<b>-</b>	<b>(33,595)</b>	<b>17,520,011</b>	
Less accumulated depreciation:						
Land improvements	141,288	7,997	-	-	149,285	
Building and building improvements	3,771,044	268,772	-	-	4,039,816	
Building service equipment	697,503	12,933	-	-	710,436	
Major movable equipment	4,649,983	831,916	-	(25,484)	5,456,415	
Major movable equipment - Capital leases	541,029	72,297	-	-	613,326	
<b>Total</b>	<b>9,800,847</b>	<b>1,193,915</b>	<b>-</b>	<b>(25,484)</b>	<b>10,969,278</b>	
<b>Net carrying amount</b>	<b>\$ 6,395,775</b>	<b>\$ 163,069</b>	<b>\$ -</b>	<b>\$ (8,111)</b>	<b>\$ 6,550,733</b>	

### Note 6 - Cost Report Settlements

Approximately 67 percent of the Organization's revenues from patient services are received from the Medicare and Medicaid programs and a payment agreement with Medical Mutual. 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

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## Notes to Financial Statements December 31, 2005 and 2004

### 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.

- **Medical Mutual** - Inpatient, acute-care services and outpatient services rendered to Medical Mutual program beneficiaries are paid on a percentage of charge or fee schedule basis.

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 and 2004 consists 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 and 6.7 percent in 2005 and 2004, respectively, with annual principal payments of \$145,000 due through December 1, 2006.

The Organization leased medical equipment, office equipment, furniture, and fixtures used in its operations under capital leases, which generally require the Organization to pay property taxes, insurance, and maintenance costs. Such capital leases were due in monthly installments, including interest at rates of 1.87 percent through November 2004, and were collateralized by the equipment leased.

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

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

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	538,590
Total leases, bonds, and other liabilities	<u>\$ 741,489</u>	<u>\$ 903,048</u>	<u>\$ (941,601)</u>	<u>\$ 702,936</u>	<u>\$ 683,590</u>

Long-term debt activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Current Year Additions	Hospital Current Year Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Lease obligations	\$ 80,461	\$ -	\$ (80,461)	\$ -	\$ -
Bonds payable - 1990 issue	435,000	-	(145,000)	290,000	145,000
Compensated absences	417,250	737,227	(702,988)	451,489	435,833
Total leases, bonds, and loans payable	<u>\$ 932,711</u>	<u>\$ 737,227</u>	<u>\$ (928,449)</u>	<u>\$ 741,489</u>	<u>\$ 580,833</u>

The following is a schedule of bond principal and interest payments as of December 31, 2005.

Year Ended December 31	Bond and Loans Payable	Bond and Loan Interest
2006	<u>\$ 145,000</u>	<u>\$ 9,788</u>

### Note 8 - Accrued Liabilities and Other

The details of accrued liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Compensation and related items	\$ 246,184	\$ 106,982
Pension	92,367	193,579
Insurance premiums and accruals	287,967	106,316
Total accrued liabilities	<u>\$ 626,518</u>	<u>\$ 406,877</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, 2005 and 2004

### Note 9 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	2005	2004
Patient revenue:		
Inpatient services:		
Routine services	\$ 2,036,545	\$ 2,094,119
Ancillary services	7,156,746	7,870,347
Outpatient ancillary services	29,543,737	25,655,520
Total patient revenue	38,737,028	35,619,986
Revenue deductions:		
Provision for contractual allowances	15,907,134	15,097,348
Provision for bad debts	1,534,273	1,030,514
Charity care - Net of Hospital care assurance received	529,499	379,539
Total revenue deductions	17,970,906	16,507,401
Total	\$ 20,766,122	\$ 19,112,585

### Note 10 - Defined Benefit Pension Plan

**Plan Description** - The Organization 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 (the "Board"). 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).

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 10 - Defined Benefit Pension Plan (Continued)

**Funding Policy** - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO) and are actuarially determined. The 2005 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2005, 2004, and 2003 employer contribution rate for local government units was 13.55 percent of covered payroll. The Organization's contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$1,042,000, \$1,002,000, and \$922,000, 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 the retirement system 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 2005 and 2004 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.0 percent was the portion that was used to fund health care during 2005 and 2004. The portion of the employer's contribution used to fund postemployment benefits for 2005, 2004, and 2003 was \$308,000, \$291,000, and \$340,000, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

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. The investment return assumption rate for 2004 was 8.00 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 1.00 percent to 6.00 percent for the next eight years. In subsequent years (nine 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 the system's latest actuarial review performed as of December 31, 2004.

# Wyandot Memorial Hospital and Affiliate

## Notes to Financial Statements December 31, 2005 and 2004

### Note 10 - Defined Benefit Pension Plan (Continued)

The number of active contributing participants in the traditional and combined plans at December 31, 2004 and 2003 was 376,109 and 355,287, respectively. As of December 31, 2004, the actuarial value of the retirement system's net assets available for OPEB was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 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 the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

### Note 11 - 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.

### Note 12 - 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 \$5,000,000 of coverage.

# Wyandot Memorial Hospital and Affiliate

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## Notes to Financial Statements December 31, 2005 and 2004

### **Note 12 - Medical Malpractice Claims (Continued)**

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.

### **Note 13 - Subsequent Event**

In 2006, the Organization entered into an agreement to purchase a 64-slice CT scanner. The cost of the CT scanner is approximately \$1.6 million and will be paid out of operations.

## **Additional Information**

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**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*; No Reportable Instances of Noncompliance of Other Matters**

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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*; No Reportable Instances of Noncompliance of Other Matters

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, 2005 and have issued our report thereon dated April 5, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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*.

To the Board of Governors  
Wyandot Memorial Hospital and Affiliate

In addition, a report was issued to management and the board of governors under separate cover regarding internal control issues and operating efficiencies which we did not consider to be material weaknesses.

This report is solely intended for the information and use of the auditor of the State of Ohio, the board of governors of Wyandot Memorial Hospital and Affiliate, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive style and is centered within a light gray rectangular box.

April 5, 2006



**Auditor of State  
Betty Montgomery**

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**WYANDOT MEMORIAL HOSPITAL**

**WYANDOT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 15, 2006**