HOCKING VALLEY COMMUNITY HOSPITAL

(A Component Unit of Hocking County, State of Ohio)

Financial and Compliance Report

December 31, 2007

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

Mary Taylor, CPA
Auditor of State

Board of Trustees
Hocking Valley Community Hospital
601 State Route 664
P. O. Box 966
Logan, Ohio 43138

We have reviewed the *Independent Auditor's Report on the Financial Statements* of the Hocking Valley Community Hospital, Hocking County, prepared by Arnett & Foster, P.L.L.C., for the audit period January 1, 2007 through December 31, 2007. 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 Hocking Valley Community Hospital is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 10, 2008

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CONTENTS

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

We have audited the accompanying balance sheets of Hocking Valley Community Hospital (the Hospital) a component unit of Hocking County, Ohio, as of December 31, 2007, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provide a reasonable basis for our opinion.

The financial statements of the Hospital do not include financial data for the Hocking Valley Community Hospital Memorial Fund, Inc., which is a legally separate component unit of the Hospital. Accounting principles generally accepted in the United States of America require the financial data for this component unit be reported with the financial data of the Hospital. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of this discretely presented component unit would have been presented as $1,615,373; $84,638; $1,530,735; $258,218; and $188,621, respectively.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the Hocking Valley Community Hospital, as of December 31, 2007, or the changes in financial position or cash flows thereof for the year then ended.

In addition, the financial statements referred to above present fairly, in all material respects, the financial position of Hocking Valley Community Hospital as of December 31, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2008, on our consideration of Hocking Valley Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ARNETT & FOSTER, P. L. L. C.

Arnett + Foster, P.L.L.C.

Charleston, West Virginia
May 21, 2008

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Hocking Valley Community Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 6. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets decreased in 2007 by $1,906 or 14%.
- The Hospital made adjustments decreasing beginning net asset in 2007 by $2,291 as more fully discussed in the footnotes to the financial statements.
- The Hospital reported operating gains of $1,559 and $3,790 in 2007 and 2006, respectively.
- Total revenues increased from 2006 to 2007 by $769 or 3% after excluding one time settlement amounts from the Medicaid program of $925 in 2006.
- The Hospital expended $1,515 in 2007 and $1,047 in 2006 in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess of revenues over expenses of $386 in 2007 and $3,790 in 2006.
- The Hospital made significant capital additions in 2007 totaling $4,982 of which $2,331 was funded from operations and $2,652 was financed through capital leases.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Balance Sheet and Statement of Operations and Changes in Net Assets

The analysis of the Hospital finances begins on page 4. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and related 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 other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 6. The Hospital's net assets decreased by $1,906 or 14% in 2007 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2007	2006	Dollar Change	Percentage Change
Assets				
Current assets	**$ 7,189**	$ 10,073	$ (2,884)	(29)%
Capital assets, net	**13,011**	9,370	3,641	39%
Restricted and limited use assets	**330**	330	-	-
Other noncurrent assets	**227**	65	162	249%
Total assets	**$ 20,757**	$ 19,838	$ 919	5%
Liabilities				
Long-term obligations	**$ 4,069**	$ 2,616	$ 1,453	56%
Current liabilities	**4,946**	3,575	1,371	38%
Total liabilities	**$ 9,015**	$ 6,191	$ 2,824	46%
Net assets				
Unrestricted	**$ 3,521**	$ 7,188	$ (3,667)	(51)%
Invested in capital assets, net of related debt	**7,891**	6,129	1,762	29%
Restricted	**330**	330	-	-
Total net assets	**$ 11,742**	$ 13,647	$ (1,905)	(14)%

A significant component of the change in the Hospital's assets is the decrease in cash and cash equivalents. Cash and cash equivalents decreased $1,870 or 41% from 2006 to 2007. This decrease was due to cash and equivalents being used to fund investments in equipment, plant operations improvements and facility remodeling projects. The Hospital also planned and received approval from its Board to recoup these funds via a Revenue Replacement Bond to be executed in 2008. Capital assets grew due to the associated investments previously noted, funded via cash, cash equivalents and long-term financing. Current liabilities increased 38% primarily due to the increase in the current portion of new debt, funding drawn from the Hospital's line of credit, accrued expenses and estimated third-party settlements. During 2007, the Hospital generated an operating income of $1,559. During 2007, the Hospital repaid $856 on its long-term debt and capital lease obligations.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the change in revenues and expenses for 2007 compared to 2006.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	Dollar Change	Percentage Change
Revenue:				
Net patient service revenue	**$ 29,446**	$ 29,610[(A)]	$ (164)	(1%)
Other	**102**	94	8	9%
Total operating revenue	**29,548**	29,704	(156)	(1%)

[(A)] Included in the 2006 net patient service revenue amount is $925 for a one time settlement amounts due from Medicaid under various programs.

	2007	2006	Dollar Change	Percentage Change
Expenses:				
Salaries and wages	**12,783**	10,826	1,957	18 %
Employee benefits	**3,701**	3,288	413	13 %
Supplies and other	**6,184**	6,361	(177)	(3)%
Professional fees and services	**3,682**	4,261	(579)	(14)%
Depreciation and amortization	**1,376**	925	451	49 %
Insurance	**263**	253	10	4 %
Total expenses	**27,989**	25,914	2,075	8 %
Operating income	**1,559**	3,790	(2,231)	(59)%
Nonoperating revenues (expenses) and capital grants and contributions	**(1,173)**	(894)	(279)	(31)%
Revenue and gains over expenses	**$ 386**	$ 2,896	$ (2,510)	(87)%

Salaries and wages grew by 18% due to the Hospital's decision to cease the professional contract in its behavioral health unit and in turn employ that staff directly, the approved staff-wide wage increase of 4.3%, and increased clinical/medical services staffing to meet the increased patient demands, as reflected in the $5,700 increase in gross charges. Benefits increased 13% due to the increase in health insurance costs and associated PERS retirement expenses related to wages. Professional fees decreased 14% primarily due to termination of the behavioral health services contract. Depreciation and amortization increased 49% due to the associated growth in capital assets.

Sources of Revenue

During 2007, the Hospital derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services by payer, for the years ended December 31, 2007 and 2006, respectively.

	2007	2006
Medicare	**44%**	36%
Medicaid	**19%**	11%
Self-Pay	**6%**	20%
Commercial and other	**31%**	33%
	100%	100%

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments which represent the difference between the standard charges for services and the actual or estimated payment.

Operating Gains

The first component of the overall change in the Hospital's net assets is its operating income gain, generally the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. Operating gains in 2007 decreased by $1,307 or 46% from 2006.

The increase in the Hospital's total operating revenue in 2007 of $769 or 3% from 2006 is the result of rate and volume increases. During 2007, the Hospital increased gross charge rates 3% compared to 2006. Excluded from net patient service revenue are charges for patient service waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $890,685 were waived during 2007.

The Hospital provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

Non-operating Revenues (Expenditures) and Capital Grants and Contributions

Nonoperating revenues (expenditures) and capital grants and contributions increased are the result of changes in the Hospital's funding to the Hocking Valley Medical Group, Inc., interest expense, investment gain (loss) and donations. The Hospital's investment income resulted in a gain of $302 in 2007. The Hospital received noncapital contributions in 2007 of approximately $49 versus $163 in 2006.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating gains and non-operating gains and losses as discussed earlier. Non-cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net assets. The Hospital generated cash in 2007 of $1,870.

Capital Asset and Debt Administration

Capital assets

At the end of 2007, the Hospital had $13,011 invested in capital assets, net of accumulated depreciation, as detailed in the financial statements. The Hospital acquired or constructed capital assets in the amount of $4,982 and $680 during 2007 and 2006, respectively.

Debt

At year end, the Hospital had $5,052 in bonds and capital lease obligations outstanding.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer's Office, 601 State Route 664, P.O. Box 966, Logan, OH 43138.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

BALANCE SHEET
December 31, 2007

ASSETS	
Current Assets	
Cash and cash equivalents	$ 2,674,449
Patient accounts receivable, net of estimated uncollectibles of approximately $1,026,000	4,209,319
Inventories	247,314
Prepaid expenses and other assets	57,976
Total current assets	7,189,058
Assets Limited as to Use	
Under bond indenture agreement	330,000
Capital assets, net	13,010,981
Other Assets	
Deferred financing costs, net	57,573
Intangible asset, net	158,607
Interest receivable	10,899
Total other assets	227,079
Total assets	$ 20,757,118
LIABILITIES AND NET ASSETS	
Current Liabilities	
Line-of-credit	$ 477,000
Current portion of long-term debt	983,481
Accounts payable and accrued expenses	1,188,908
Accrued salaries, wages and employee benefits	1,797,182
Estimated third-party payor settlements	500,000
Total current liabilities	4,946,571
Long-Term Debt, net of current portion	4,068,780
Total liabilities	9,015,351
Net Assets	
Invested in capital assets, net of related debt	7,890,436
Restricted	330,000
Unrestricted	3,521,331
Total net assets	11,741,767
Total liabilities and net assets	$ 20,757,118

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year Ended December 31, 2007

Revenues	
Net patient service revenue, net of provision for bad debts of $3,323,916	$ 29,446,591
Other operating revenue	101,615
Total operating revenues	29,548,206
Operating expenses	
Salaries and wages	12,782,734
Employee benefits	3,701,163
Supplies and other expenses	6,184,391
Professional fees and services	3,682,453
Depreciation and amortization	1,375,950
Insurance	262,584
Total operating expenses	27,989,275
Operating income	1,558,931
Nonoperating revenues (expenses)	
Funding to Hocking Valley Medical Group, Inc.	(1,515,272)
Investment income	301,375
Interest expense	(231,644)
Gain on sale of fixed assets	5,473
Noncapital grants and contributions	49,181
Total nonoperating revenues (expenses)	(1,390,887)
Excess of revenues over expenses before capital grants and contributions	168,044
Capital grants and contributions	218,000
Increase in net assets	$ 386,044
Net assets, beginning of year, as previously stated	$ 13,647,290
Prior period adjustments	(2,291,567)
Net assets, beginning of year, restated	11,355,723
Increase in net assets	386,044
Net assets, end of year	$ 11,741,767

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

STATEMENT OF CASH FLOWS
Year Ended December 31, 2007

Cash Flows from Operating Activities	
Cash received from patients and third party payors	$ 29,025,448
Cash paid to employees for wages and benefits	(16,337,864)
Cash paid to vendors for goods and services	(10,595,694)
Other receipts, net	101,615
Net cash provided by operating activities	2,193,505
Cash Flows from Noncapital Financing Activities:	
Contributions	49,181
Repayment of / borrowing under line-of-credit	477,000
Net cash provided by noncapital financing activities	526,181
Cash Flows from Capital and Related Financing Activities	
Repayment of long-term debt	(423,396)
Repayment of capital lease obligations	(432,132)
Interest paid on long-term debt	(231,644)
Purchase of capital assets	(2,330,646)
Capital grants and contributions	218,000
Net cash used in capital and related financing activities	(3,199,818)
Cash Flows from Investing Activities	
Investment income	301,375
Acquisition of Hocking Valley Imaging	(176,230)
Funding to Hocking Valley Medical Group	(1,515,272)
Net cash used in investing activities	(1,390,127)
Net decrease in cash and cash equivalents	(1,870,259)
Cash and cash equivalents, beginning of year	4,874,708
Cash and cash equivalents, end of year	$ 3,004,449
Reconciliation of cash and cash equivalents to the balance sheet	
Cash and cash equivalent in current assets	$ 2,674,449
Cash and cash equivalents in Assets Limited as to Use	330,000
	$ 3,004,449
Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income (loss)	$ 1,558,931
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,375,950
Provision for bad debts	3,232,917
Changes in:	
Patient accounts receivable	(3,795,500)
Inventories, prepaid expenses and other assets	(9,171)
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	394,763
Estimated third-party settlements	(564,385)
Net cash provided by operating activities	$ 2,193,505
Supplemental Disclosure of Noncash Financing Activities	
Assets acquired under capital lease obligations	$ 2,651,636

See Notes to Financial Statements

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity: Hocking Valley Community Hospital (the Hospital), located in Hocking County, Logan, Ohio, is organized as a county hospital under provisions of the general statutes of the State of Ohio requiring no specific articles of incorporation. The organization is exempt from Federal income taxes. The Board of Trustees, appointed by the county commissioners and the probate and common pleas court judges, is charged with the management and operation of the Hospital, its finances and staff. The Hospital is considered a component unit of Hocking County, Ohio and is included as a component unit in the general-purpose financial statements of Hocking County.

Enterprise fund accounting: The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was $890,695 in 2007.

Net patient service revenue and patient accounts receivable: Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. In 2007, approximately 43% of the Hospital's total patient revenue was derived from Medicare payments while 8% was derived from Medicaid.

The remaining revenue was derived primarily from commercial insurance payments and individual self-payments. The Hospital maintains an allowance for doubtful accounts based upon the expected collectibility of patient accounts receivable.

Investments: The Hospital's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds and money market funds.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating revenue when earned.

In February, 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities,* effective for year beginning after November 15, 2007. This financial accounting and reporting standard permits financial reporting entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The adoption of this standard will require the Hospital to report unrealized gains and losses on items for which the fair value option has been elected within the performance indicator on the statement of operations.

Assets whose use is limited: Assets whose use is limited consist of certificates of deposit restricted by the Trustee for maintenance of a minimum operating reserve in connection with the Hospital's Refunding and Improvement Bonds. The certificates are carried at fair value which approximates cost.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market.

Capital Assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation over the following estimated useful lives:

Buildings	15 to 40 years
Fixed Equipment	10 to 20 years
Moveable Equipment	5 to 15 years
Land Improvements	10 to 20 years

Amortization expense on capital leases is included in depreciation expense.

Deferred financing costs: Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2007 was $56,939.

Cash and cash equivalents: The Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Statements of operations and changes in net assets: For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. The peripheral activities include investment income and are reported as non-operating.

Compensated Absences: The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to a specified amount, to be carried over to the subsequent year. The estimated amount of vacation time payable for hours earned is reported as a current liability in 2007. The Hospital's employees also earn sick leave benefits based on years of service. Accrued sick leave is paid out at termination at rates up to 12 percent of hours accrued at 50 percent of hourly rate, depending on years of service. Accrued sick leave is paid out at 33 percent, with maximum payouts of 40 to 80 days depending on years of service, for retired employees with at least 10 years of service. The estimated amount of sick leave time payable for hours earned is reported as a current liability in 2007.

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

Net assets: Net assets of the Hospital are classified in three 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 net assets are assets that are set aside for bond repayment purposes, as specified by creditors of the Hospital as well as restricted contributions. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating revenues and expenses: The Hospital's 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 healthcare services – the Hospital's principal activity. Nonexchange revenues, including 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.

Grants and contributions: From time to time, the Hospital receives grants and contributions from governmental organizations, private individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Use of restricted funds: The Hospital has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Hospital attempts to utilize restricted funds first when practicable.

Recent Accounting Standards: The GASB has issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Hospital does not believe the adoption of GASB Statement No. 49 will have an impact on the financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

The GASB has issued Statement No. 50. *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other post employment benefits, thus enhancing the information disclosed in the notes to the financial statements or presented as required supplementary information. The Hospital has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

Reclassifications: Certain reclassifications have been made to the 2006 financial statements in order to conform with current-year presentation.

Note 2. Deposits and Investments

Deposits

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At December 31, 2007, the carrying amount of the Hospital's bank deposits for all funds is $3,004,449 as compared to a bank balance of $3,101,487. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances at December 31, 2007, $129,288 is covered by Federal insurance programs and $2,972,199 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

The Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

		Maturities	
	Carrying Amount	Less than 1 Year	1 - 5 Years
Agency bonds	$ 11,442	$ -	$ 11,442
Certificate of deposit	531,338	511,338	20,000
	$ 542,780	$ 511,338	$ 31,442

Interest rate risk – While no formal investment policy has been established by the Hospital, the Hospital's Investments are in accordance with and governed by the Ohio Revised Code, which requires low risk investments be maintained.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in eligible institutions; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments. At December 31, 2007, the Hospital had 98% of its investments invested in certificates of deposit at local banks.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital Assets consist of the following:

December 31, 2007	December 31, 2006	Additions	Reductions	December 31, 2007
Capital Assets				
Land improvements	$ 562,007	$ 7,903	$ -	**$ 569,910**
Buildings and improvements	12,446,144	1,158,695	-	**13,604,839**
Equipment	12,706,751	3,735,695	-	**16,442,446**
Construction in process (not depreciated)	-	85,462	-	**85,462**
Total capital assets	25,714,902	4,987,756	-	**30,702,657**
Less accumulated depreciation for:				
Land improvements	239,407	13,964	-	**253,371**
Buildings and improvements	5,049,037	379,780	-	**5,428,817**
Equipment	11,056,639	952,849	-	**12,009,488**
Total accumulated depreciation	16,345,083	1,346,593	-	**17,691,676**
Capital assets, net	$ 9,369,819	$ 3,555,703	$ -	**$ 13,010,981**

Cost of equipment under capital lease	$ 3,610,093
Accumulated amortization	1,185,308
Net carrying amount	$ 2,424,782

Depreciation expense for the year ended December 31, 2007 totaled $1,375,950.

Note 4. Estimated Third-Party Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare program for settlement of the 2007 and 2006 cost reports. The balance of December 31, 2007 consists of estimated amounts as follows:

2006	$ (376,000)
2007	(134,000)
Total	$ (500,000)

Note 5. Accounts Receivable and Accounts Payable and Accrued Expenses

Patient accounts receivable and accounts payable and accrued expenses reported as current liabilities at December 31, 2007 consisted of these amounts:

Patient Accounts Receivable	
Receivable from patients and their insurance carriers	$ 4,367,973
Receivable from Medicare	2,293,292
Receivable from Medicaid	1,465,922
Total patient accounts receivable	8,127,187
Less allowance for uncollectible accounts	3,917,868
Patient accounts receivable, net	$ 4,209,319

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Accounts Payable and Accrued Expenses	
Payable to suppliers and vendors	$ 832,612
Accrued workers compensation	292,988
Patient refunds	63,308
	$ 1,188,908

Accrued Salaries, Wages and Employee Benefits	
Accrued salaries	$ 251,792
Sick pay	226,426
Vacation	781,178
Withholdings and benefit accruals	537,786
	$ 1,797,182

Note 6. Long-Term Obligations

A schedule of changes in the Hospital's noncurrent liabilities for the year is as follows:

	December 31, 2006	Additions	Payments	**December 31, 2007**	Amounts due within 1 year
1993 bonds, issued July 1, 1993	$ 750,000	$ -	$ 225,000	**$ 525,000**	$ 235,000
1999 bonds, issued March 1, 1999	1,925,000	-	115,000	**1,810,000**	115,000
Bond discount	(47,579)	-	4,770	**(42,809)**	(4,770)
Note payable, Hocking County Public Health Department, December 2003	171,000	-	28,500	**142,500**	28,500
Note payable, bank, March 2005	171,365	-	43,999	**127,369**	51,433
Capital lease obligations	270,697	2,651,636	432,132	**2,490,201**	558,318
	$ 3,240,484	$ 2,651,636	$ 849,399	**$ 5,052,261**	$ 983,481

A description of long-term debt at December 31, 2007 follows:

1993 County Hospital Refunding and Improvement Bonds, Term Bonds, 5.35% due December 1, 2009, mandatory annual redemption beginning December 1, 2004, in installments ranging from $195,000 to $235,000 plus interest.

1993 County Hospital Refunding and Improvement Bonds, Term Bonds, 5.45% due December 1, 2013, mandatory annual redemption beginning December 1, 2009, in installments ranging from $50,000 to $65,000 plus interest.

1999 County Hospital Improvement Bonds, Serial Bonds, rates ranging from 3.3% to 4.65%, principal due each December through 2013, ranging from $90,000 to $145,000 with interest due each June 1 and December 1.

1999 County Hospital Improvement Bonds, Term Bonds, 4.75% due December 1, 2019, mandatory annual redemption beginning December 1, 2014, in installments ranging from $150,000 to $185,000 plus interest.

Note payable, Hocking County Public Health Department, bi-annual payments of $14,250 due and payable each June and December through 2009. Collateralized by building with a net book value of approximately $221,000, interest per the agreement was 0% and management determined that imputed interest was immaterial.

Note payable, bank, due March 2010, due in 60 monthly installments of $4,582, interest at 5.25%, secured by land with a net book value of $250,000.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Capital lease obligations at varying rates of imputed interest from 2.9% to 10.4%, collateralized by leased equipment with a net book value of $2,424,782, maturing through 2012.

In 1993, the Hospital received $3,300,000 in proceeds from the issuance of Hocking County Hospital Refunding and Improvement Bonds (Refunding and Improvement Bonds) which was used to repay $2,040,000 Hocking County Hospital Refunding Bonds (Refunding Bonds) before their scheduled maturity, repay a capital lease and construct certain Hospital improvements. The Hospital has agreed with the Hocking County Commissioners, as Trustee for the Refunding and Improvement Bonds, to maintain a minimum operating reserve of $330,000.

Minimum payments on these obligations to maturity as of December 31, 2007 follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2008	$ 425,163	$ 117,395	$ 558,318	$ 188,114
2009	247,250	97,067	633,326	155,731
2010	231,147	86,792	363,019	84,398
2011	218,730	78,028	376,469	56,914
2012	223,730	68,683	559,069	17,333
Thereafter	1,216,040	236,148	-	-
	$ 2,562,060	$ 684,113	$ 2,490,201	$ 502,490

Note 7. Line of Credit

As of December 31, 2007, the Hospital has a $1,000,000 line of credit with a bank. The balance on the line of credit was $477,000 as of December 31, 2007. Interest on line of credit is at prime minus 2.25% which at December 31, 2007, was approximately 5.25%. The loan is secured by accounts receivable with a net book value of $4,209,319. Activity on the line of credit is as follows:

	December 31, 2006	Borrowings	Payments	December 31, 2007
Line of credit	$ -	$ 477,000	$ -	$ 477,000

Note 8. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. The Hospital is designated as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs. CAH’s receive payments on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital’s billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: On October 4, 2006, the Hospital became a Critical Access Hospital. After October 4, 2006, inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are based on fee schedules.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through 2005.

The Hospital’s swing bed and Extended Care Facility are paid based on a prospective payment system (PPS). This system establishes Resource Utilization Groups (RUGs) based on the clinical and diagnostic information from the beneficiaries Minimum Data Set Version 2.0 (MDS). The MDS assessment is performed at prescribed intervals by a nurse and the RUG-III group is determined based on the clinical resources needed by the beneficiary. Each RUG category has a payment rate which is facility specific based on the location and wage index of the facility.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Hospital’s charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement. The Hospital’s Medicaid cost reports have been settled by the Medicaid program through December 31, 2002.

Other payors: The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2007 is as follows:

Gross patient service revenue	$ 60,849,058
Less third-party allowances	28,078,551
Less bad debts	3,323,916
Net patient service revenue	$ 29,446,591

Note 9. Pension Plan

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – 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 and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. OPERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

Funding Policy

The required actuarially-determined contribution rates for the Hospital and for employees are 13.85% and 9.5%, respectively. The Hospital’s contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2007	$ 1,686,225
2006	$ 1,458,752
2005	$ 1,314,267

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-employment healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2007 employer contribution rates of 13.85% used to fund healthcare was 5% for the period January 1 through June 30 and 6% for the period July 1 through December 31. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and amounts below are based on OPERS' latest actuarial review performed as of December 31, 2006. 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% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2006 was 6.5% An annual increase of 4% 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% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 369,214.

Hospital contributions made to fund post-employment benefits approximated $673,000 for 2007.

The actuarial value of OPERS net assets available for OPEB at December 31, 2006 was $12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was $30.7 billion and $18.7 billion, respectively.

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2007, and January 1, 2008, allowed additional funds to be allocated to the health care plan.

Note 10. Deferred Compensation

Employees of the Hospital may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), a deferred compensation plan under Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon are not subject to federal and state income taxes until actually received by the employee.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Note 11. Professional Liability Insurance

The Hospital has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the aggregate. In addition, the Hospital has umbrella coverage of $1,000,000 per occurrence and $3,000,000 in the aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than $1,000,000 per occurrence and $1,000,000 in the aggregate. The Hospital's coverage is on a claims made basis.

Note 12. Related Parties

Hocking Valley Community Hospital Memorial Fund, Inc.:
The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) was organized as a separate not-for-profit membership corporation. The purpose of the Foundation is to solicit gifts for the benefit of the Hospital. The Board of Directors of the Foundation is elected by the Foundation's members. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed to the Hospital in amounts and in periods determined by the Foundation's Board of Trustees, who may also restrict the use of such funds for Hospital property and equipment replacement, expansion or other specific purposes. Because management believes the resources of the Foundation are significant to the Hospital, the Foundation is considered a component unit of the Hospital. The Hospital has not discreetly presented the Foundation's financial statements as required by accounting principles generally accepted in the United States of America. The following summarized condensed financial statements are for information purposes only.

The Foundation is the controlling member of the Hocking Valley Health Services (HVMG). The financial statements of the Foundation do not include the assets, obligations, revenues or expenses of HVMG.

Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation)
Unaudited Condensed Balance Sheet
December 31, 2007

ASSETS	
Current Assets	
Cash and cash equivalents	$ 457,000
Investments	528,904
Property and equipment, net	629,469
Total assets	$ 1,615,373
Current liabilities	
Total liabilities	$ 84,638
Total net assets	1,530,735
Total liabilities and net assets	$ 1,615,373

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

NOTES TO FINANCIAL STATEMENTS

Unaudited Condensed Statements of Activities
December 31, 2007

Total support	$ 258,218
Expenses	68,121
Donations and pledges to the Hospital	120,500
Increase in net assets	69,597
Net assets, beginning of year	1,461,138
Net assets, end of year	$ 1,530,735

The Hospital entered into a 10 year non-cancelable lease with the Foundation for the Medical Arts Building that expires in September 2008. The Hospital is responsible for utilities, taxes, maintenance and insurance in addition to the rental payments of $6,256 per month. Future minimum rental payments for the year ending December 31, follows:

2008	$ 56,306
Total future minimum lease payments	$ 56,306

Hocking Valley Medical Group, Inc:
Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2007, the sole shareholder of HVMG has entered into an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements of the Hospital do not include the assets, obligations, revenues or expenses of HVMG.

During the year ended December 31, 2007, the Hospital disbursed funds totaling $1,515,272 on behalf of HVMG to fund operating deficits. These amounts were paid to the Foundation due to the nature of the control the Foundation has over HVMG. There were no amounts due to or from HVMG at December 31, 2007.

Hocking Valley Health Services:
Hocking Valley Health Services (HVHS) is a not-for-profit membership corporation located in Logan, Ohio. The purpose of HVHS is to provide healthcare and physician services and to own, lease, operate and/or provide healthcare facilities for the promotion of health in the area served by the Hospital. Additionally, HVHS is to conduct strategic healthcare planning and otherwise operate exclusively for the benefit and support of the Board of Governors of the Hospital. The Board of Trustees of HVHS are elected by HVHS's members of whom fifty percent of the voting rights are controlled by the Board of Governors of the Hospital.

Note 13. Prior Period Adjustments

During the year ended December 31, 2007, the Hospital discovered an error of $1,585,743 in the valuation calculation for patient accounts receivable as of December 31, 2006. The Hospital also discovered an error of $862,325 for settlement amounts due to Medicare. Additionally, the Hospital discovered an error in the recording of old accounts receivable credit balances of $156,500. During the year ended December 31, 2007, the Hospital corrected these errors by reducing beginning unrestricted net assets at December 31, 2006 by $2,291,567 and correspondingly reducing accounts receivable by $1,429,242 and increasing estimated third party settlement liability by $862,325. The impact on the results of operations for prior years was not determined.

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

INDEPENDENT AUDITOR'S 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*

To the Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

We have audited the financial statements of Hocking Valley Community Hospital as of and for the year ended December 31, 2007, and have issued our report thereon dated May 21, 2008. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital'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 Hospital's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 07-01 and 07-02 to be significant deficiencies in internal control over financial reporting.

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 Hospital's internal control.

Our consideration of the 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. However, we believe that the significant deficiency identified in 07-01 above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated May 21, 2008.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

ARNETT & FOSTER, P.L.L.C.

Arnett + Foster, P.L.L.C.

Charleston, West Virginia
May 21, 2008

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2007

07-01 Patient Accounts Receivable and Valuation

Criteria or Specific Requirement

Patient accounts receivable should be recorded at net realizable value. Management's assertions regarding proper valuation of its revenues and receivables are embodied in the financial statements. Management is responsible for assuring that revenues are not recognized until their realization is reasonably assured. As a result, management makes a reasonable estimate of amounts that ultimately will be realized, considering – among other things – adjustments associated with regulatory reviews, audits, billing, reviews, investigations, or other proceedings. Estimates that are significant to management's assertions about revenue include the provision for third-party payor contractual adjustments and allowances.

Management also is responsible for preparing and certifying cost reports submitted to federal and state government agencies in support of claims for payment for services rendered to government program beneficiaries.

Condition

Patient Accounts receivable were not valued at net realizable value and the methodology used to determine the reserve for contractual allowances and the reserve for bad debts did not consider historical collection percentages on all classes of patient accounts.

Effect

Patient accounts receivable were overstated by over $2.3 million at December 31, 2007, resulting in an audit adjustment that reduced 2007 net patient revenue by approximately $760,000 and beginning of year net assets by approximately $1,600,000.

Recommendation

Management should perform a detailed analysis of the valuation of patient accounts receivable on a monthly basis and this analysis should include an evaluation of historical collection percentages as well as a retrospective review of prior year patient accounts receivable to determine the appropriateness of prior year allowances and reserves.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding and has implemented a new model to calculate the reserve for contractual adjustments and the reserve for bad debts.

07-02 Patient Accounts Receivable Credit Balances

Criteria or Specific Requirement

The patient accounts receivable subsidiary ledger should be reviewed monthly to insure that individual accounts represent valid patient accounts and that all postings for charges, payments and write-offs and adjustments are properly recorded.

HOCKING VALLEY COMMUNITY HOSPITAL
(A Component Unit of Hocking County, State of Ohio)

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2007

Condition

The patient accounts receivable subsidiary ledger included numerous credit balances totaling approximately $460,000 that were in many cases over four years old and represented payments and other posting that had not been properly accounted for.

Effect

Patients accounts receivable detail records include credit balances for payments and adjustments that result in a potential misstatement of the monthly financial statements or could represent potential overpayments that should be refunded.

Recommendation

All patient accounts receivable credit balances should be researched and adjusting accordingly based upon the results of the research. If overpayments are identified, refunds should be processed immediately.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding as management has been aware of this issue for several years. We have begun the process of researching each credit balance and plan to take the appropriate corrective action in 2008 based upon the results of our research.

Mary Taylor, CPA
Auditor of State

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING 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
NOVEMBER 6, 2008

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