Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Financial Report
December 31, 2013

Dave Yost · 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* of the Hocking Valley Community Hospital, Hocking County, prepared by McGladrey LLP, for the audit period January 1, 2013 through December 31, 2013. 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.

Dave Yost
Auditor of State

May 22, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of Hocking Valley Community Hospital, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Hocking Valley Community Hospital, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 15 to the financial statements, the Hospital restated net position at January 1, 2013 by $22,754 due to the implementation of GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities.*

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended December 31, 2013 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hocking Valley Community Hospital's basic financial statements. The supplementary information, which is comprised of the Statement of Net Position of Hocking Valley Community Hospital as of December 31, 2013, and the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows for the year then ended, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2013, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Net Position as of December 31, 2013, and the Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the year ended December 31, 2013, are fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended December 31, 2013.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Hocking Valley Community Hospital as of and for the year ended December 31, 2012 (not presented herein), and have issued our report thereon dated April 25, 2013, which contained an unmodified opinion on the respective financial statements of the business-type activities. The report also contained an adverse opinion for the omission of the discretely presented component unit. The supplementary information, which is comprised of the Statement of Net Position of Hocking Valley Community Hospital as of December 31, 2012, and the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows for the year then ended, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Net Position of Hocking Valley Community Hospital as of December 31, 2012, and the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows for the year then ended is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2012.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2014 on our consideration of the 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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

McGladrey LLP

Cleveland, Ohio
April 24, 2014

Management's Discussion and Analysis

The discussion and analysis of Hocking Valley Community Hospital's (the Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2013 and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 9. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net position increased in 2013 by $1,940, or 21%.
- The Hospital reported operating income of $3,378.
- Total revenues increased from 2012 to 2013 by $2,248, or 7%.
- The Hospital expended $1,826 in 2013 in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess of revenues over expenses of $1,790 in 2013.
- The Hospital made significant capital additions in 2013 totaling $1,532, of which $786 was funded from operations and $746 was financed through the issuance of long-term debt and capital lease obligations.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

The analysis of the Hospital's finances begins on page 5. 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 statement of net position and the statement of revenues, expenses and changes in net position 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 position and related changes. You can think of the Hospital's net position – 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 position 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, noncapital related financing 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?"

Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 9. The Hospital's net position increased by $1,940 or 21% and decreased by $3,533, or 27.8% in 2013 and 2012, respectively, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position (in thousands)

	2013	2012 (Restated)
Assets		
Current assets	$ 6,947	$ 6,129
Capital assets, net	11,050	10,948
Certificates of deposit	218	330
Total assets	$ 18,215	$ 17,407
Liabilities		
Current liabilities	$ 4,709	$ 5,508
Long-term obligations	2,387	2,720
Total liabilities	7,096	8,228
Net Position		
Net investment in capital assets	8,365	8,269
Restricted	-	330
Unrestricted	2,754	580
Total net position	$ 11,119	$ 9,179

A significant component of the Hospital's assets is capital assets. Capital assets, net, increased by $102, or 0.9% in 2013. Fixed assets acquired by the Hospital were $1,532 in 2013. These additions were offset by depreciation of $1,409.

Operating Results and Changes in the Hospital's Net Position

Table 2: Change in Revenues and Expenses

	2013	2012 (Restated)
Revenues		
Net patient service revenue	$ 34,054	$ 31,914
Other	404	296
Total operating revenue	34,458	32,210
Expenses		
Salaries and wages	12,919	13,965
Employee benefits	5,537	6,390
Supplies and other	6,378	6,965
Professional fees and services	4,677	4,646
Depreciation and amortization	1,409	1,469
Insurance	160	137
Total operating expenses	31,080	33,572
Operating income (loss)	3,378	(1,362)
Nonoperating revenues (expenses)	(1,588)	(2,171)
Capital grants and contributions	150	-
Change in net position	$ 1,940	$ (3,533)

Net patient service revenue increased $2,140 or 6.7% from 2012 to 2013. This increase was primarily attributed to approximately $1,300 in meaningful-use incentive payments. The Hospital also added a Pain Management Clinic in February of 2013 that contributed to the increase.

Salaries and wages decreased 7.5% from 2012 to 2013. This is primarily attributed to the closing of the Skilled Nursing Facility, restructuring the staffing in the inpatient nursing units and reductions to staff in the lab, outpatient rehab and the revenue cycle departments.

Professional fees and services increased by 0.7% from 2012 to 2013, primarily due to professional fees associated with the closure of the Skilled Nursing Facility and improvements to Pharmacy and Radiology contracts.

Sources of Revenue

The Hospital derives 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 net revenue for patient services by payor, for the years ended December 31, 2013 and 2012, respectively.

	2013	2012
Medicare	51%	55%
Medicaid	6%	9%
Self-Pay	1%	1%
Commercial and other	42%	35%
	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 by the related Federal and state regulations. 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 reimbursement.

Operating Income

The first component of the overall change in the Hospital's net position is its operating income. Generally, operating income is the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported operating income of $3,378 and an operating loss of $1,362 in 2013 and 2012, respectively.

The increase in the Hospital's total operating income in 2013 off $4,740, or 348.0% from 2012 is the result of an increase in Net Patient Service Revenue due to Meaningful Use Incentive payment of $1.3 million, opening of the Pain Management Clinic and by reducing operating expenses related to staffing, contract negotiations, employee health insurance and benefit liability and changes to supply items. The Hospital increased gross charge rates 3% in both 2013 and 2012.

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 and represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $3,600 and $3,379 were waived under the Hospital's charity care policy during 2013 and 2012, respectively.

Nonoperating Revenues (Expenses) and Capital Grants and Contributions

The Hospital's net investment income amounted to $10 and $7 in 2013 and 2012, respectively. The Hospital received noncapital contributions of $393 in 2013 versus $260 in 2012. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of $1,826 in 2013, a decrease of $648 from the amount funded in 2012 of $2,474. The Hospital received capital grants and contributions of $150 in 2013 versus $0 in 2012.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating gains and nonoperating gains and losses as discussed earlier. Non-cash charges such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net position. The Hospital generated positive cash flows from operations in 2013 and 2012 of $3,503 and $2,128, respectively.

Capital Assets and Debt Administration

Capital Assets

The Hospital had $11,050 and $10,948 invested in capital assets, net of accumulated depreciation at December 31, 2013 and 2012, respectively. The Hospital acquired or constructed capital assets in the amount of $1,532 and $1,841 during 2013 and 2012, respectively.

Debt

The Hospital had $2,686 and $2,680 in bonds and capital lease obligations outstanding at December 31, 2013 and 2012, respectively. Additionally, the Hospital has a line of credit with a local bank. The amount borrowed on the line of credit was $0 and $300 at December 31, 2013 and 2012, respectively.

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 Vice President of Finance, 601 State Route 664, P.O. Box 966, Logan, OH 43138.

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statement of Net Position
December 31, 2013

	Hocking Valley Community Hospital	Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.
Assets		
Current Assets		
Cash and cash equivalents	$ 600,057	$ 127,552
Patient accounts receivable, net of allowance of $1,073,000 in 2013	4,468,632	-
Certificates of deposit	35,037	-
Investments	463,545	348,362
Inventories	328,084	-
Current portion of note receivable	-	300,000
Prepaid expenses and other assets	1,052,104	6,256
Total current assets	6,947,459	782,170
Noncurrent Assets		
Note receivable	-	200,002
Certificates of deposit	217,821	274,992
Restricted investments	-	228,262
Total noncurrent assets	217,821	703,256
Capital Assets		
Land and construction in progress	626,580	161,834
Buildings, land improvements and equipment, net	10,423,779	503,361
Capital assets, net	11,050,359	665,195
Total assets	$ 18,215,639	$ 2,150,621

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statement of Net Position
December 31, 2013

	Hocking Valley Community Hospital	Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.
Liabilities		
Current Liabilities		
Current portion of capital lease obligations	$ 440,116	$ -
Current portion of long-term debt	450,000	-
Accounts payable and accrued expenses	2,046,594	238
Accrued payroll and related liabilities	1,149,303	-
Self-insurance liabilities	293,298	-
Current portion of accrued vacation and sick leave	330,411	-
Total current liabilities	4,709,722	238
Noncurrent Liabilities, net of current portions		
Accrued vacation and sick leave	591,593	-
Capital lease obligations	734,553	-
Long-term debt	1,060,847	-
Total noncurrent liabilities	2,386,993	-
Total liabilities	7,096,715	238
Net Position		
Net investment in capital assets	8,364,843	665,195
Restricted, nonspendable	-	139,236
Restricted, program activities	-	89,026
Unrestricted	2,754,081	1,256,926
Total net position	$ 11,118,924	$ 2,150,383

See Notes to Financial Statements.

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2013

	Hocking Valley Community Hospital	Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.
Operating Revenues		
Net patient service revenue	$ 34,054,008	$ -
Other operating revenue	404,067	93,475
Total operating revenues	34,458,075	93,475
Operating Expenses		
Salaries and wages	12,919,174	-
Employee benefits	5,537,168	-
Supplies and other expenses	6,378,207	13,751
Professional fees and services	4,677,136	-
Depreciation and amortization	1,409,062	26,945
Insurance	159,456	-
Total operating expenses	31,080,203	40,696
Operating income	3,377,872	52,779
Nonoperating Revenues (Expenses)		
Funding to Hocking Valley Community Hospital Memorial Fund, Inc.	(1,826,000)	-
Net investment income	9,757	81,992
Interest expense	(148,486)	-
Loss on sale of capital assets	(16,726)	-
Grant expenses and support	-	(200,740)
Noncapital grants and contributions	393,384	112,811
Total nonoperating revenues (expenses)	(1,588,071)	(5,937)
Excess of revenues over expenses before capital grants and contributions	1,789,801	46,842
Capital grants and contributions	150,000	-
Increase in net position	1,939,801	46,842
Net position, beginning of year, as restated	9,179,123	2,103,541
Net position, end of year	$ 11,118,924	$ 2,150,383

See Notes to Financial Statements.

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statement of Cash Flows
Year Ended December 31, 2013

Cash Flows From Operating Activities	
Cash received from patients and third party payors	$ 33,834,470
Cash paid to employees for wages and benefits	(18,826,593)
Cash paid to vendors for goods and services	(11,909,432)
Other receipts	404,067
Net cash provided by operating activities	3,502,512
Cash Flows From Noncapital Financing Activities	
Contributions	393,384
Payments on line of credit	(300,000)
Funding to Hocking Valley Community Hospital Memorial Fund, Inc.	(1,826,000)
Net cash used in noncapital financing activities	(1,732,616)
Cash Flows From Capital and Related Financing Activities	
Repayment of long-term debt	(210,000)
Repayment of capital lease obligations	(534,693)
Interest paid on long-term debt	(143,681)
Purchase of capital assets	(786,434)
Proceeds from the sale of capital assets	4,500
Net cash used in capital and related financing activities	(1,520,308)
Cash Flows From Investing Activities	
Investment income	9,757
Payments for investment purchases and reinvestments	(330,389)
Net cash used in investing activities	(320,632)
Net decrease in cash and cash equivalents	(71,044)
Cash and cash equivalents	
Beginning	671,101
Ending	$ 600,057

(Continued)

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statement of Cash Flows (Continued)
Year Ended December 31, 2013

Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating income	$ 3,377,872
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation and amortization	1,409,062
Provision for bad debts	3,786,487
Changes in:	
Patient accounts receivable	(3,643,976)
Inventories, prepaid expenses and other assets	(589,664)
Accounts payable and accrued expenses	(104,969)
Accrued payroll and related liabilities	(38,288)
Self-insurance liabilities	(37,079)
Estimated amounts due to third-party payors	(362,049)
Accrued vacation and sick leave	(294,884)
Net cash provided by operating activities	$ 3,502,512
Supplemental Disclosure of Noncash Capital Financing Activities:	
Assets acquired under capital lease obligations	$ 575,868
Assets acquired through issuance of debt	$ 170,000

See Notes to Financial Statements.

Note 1. 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 basic financial statements of Hocking County.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) is included as a discretely presented component unit in a separate column in the Hospital's financial statements to emphasize that it is legally separate from the Hospital. The Foundation is a legally separate not-for-profit corporation. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Hospital in support of its programs. Although the Hospital does not control the timing or the amounts of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Hospital, it is considered a component unit of the Hospital.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Hospital reports a single business-type activity, which requires the following financial statements and management's discussion and analysis:

- Management's Discussion and Analysis

- Basic Financial Statements including a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, for the Hospital as a whole

- Notes to Financial Statements

The Hospital is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Hospital's operations are included in the Statement of Net Position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Hospital's fiscal year is the calendar year. Pursuant to Ohio law, the Hospital submits a budget to the County for approval by November 1 of each year. The fundamental purpose of the budget is to plan for an expected level of operations and to provide management with a tool to control deviation from such a plan. The budget is prepared on an accrual basis.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Statement of revenues, expenses and changes in net position: The Hospital recognizes as operating revenues those transactions that are major or central to the provision of health care services. Operating revenues include those revenues received for direct patient care, grants received from organizations as reimbursement for patient care, and other incidental revenue associated with patient care. Operating expenses include those costs associated with providing patient care including costs of professional care, operating the hospital facilities, administrative expenses, and depreciation and amortization. Nonoperating revenues include investment income and grants and contributions received for purposes other than capital asset acquisition. Nonoperating expenses include interest expense and expenses for funding to the Foundation which represent amounts paid to the Foundation for the benefit of Hocking Valley Medical Group (see Note 13).

Cash and cash equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts and contractual allowances. Contractual allowances 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. 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 collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts (reported within net patient service revenue) in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction of the provision for bad debts when received. Interest is not charged on patient accounts receivable.

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

Capital assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Expenditures for capital assets must exceed $1,000 in order for them to be capitalized. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these useful lives:

Buildings and related improvements	10 to 40 years
Fixed equipment	10 to 20 years
Moveable equipment	3 to 20 years
Land improvements	10 to 20 years

Depreciation expense on capital leases is included in depreciation and amortization in the statement of revenues, expenses and changes in net position. The asset and accumulated depreciation are removed from the related accounts when the asset is disposed. Any income or loss resulting from this disposal is recorded in the statement of revenues, expenses and changes in net position.

Note 2. Summary of Significant Accounting Policies (Continued)

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in 2013 because management determined that the overall impact to the Hospital's financial statements is immaterial.

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 nonoperating revenues and expenses.

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

Net position: Net position of the Hospital is classified into several components as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted net position – results when constraints placed on the use of the net position are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – consists of remaining net position that does not meet the previously listed criteria.

Risk management: The Hospital is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital is self-insured for employee health insurance. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2013. For medical malpractice, the Hospital has professional liability insurance with a commercial carrier.

Restricted investments: Restricted investments consist of assets maintained by the Foundation whose use is restricted by a donor.

Investments: The Hospital records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are included in net investment income in the statement of revenues, expenses and changes in net position.

The Foundation records its investments at fair value in accordance with the *Investments Topic* of the Accounting Standards Codification. Differences between cost and fair value are recognized as unrealized gains or losses in the period in which they occur. The realized gain or loss on investments is the difference between the proceeds received and the cost of investments sold.

Note 2. Summary of Significant Accounting Policies (Continued)

Certificates of deposit: The Hospital and Foundation record their investments in certificates of deposit at cost. The certificates of deposit are classified on the statement of net position based on maturity date.

Concentration risk: Financial instruments that potentially subject the Hospital and the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and for the Hospital, patient accounts receivable.

The Hospital and the Foundation place their cash and cash equivalents with high credit quality financial institutions.

As it relates to the Hospital, concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the patients and payors. Patient accounts receivable consists of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Excluding governmental programs, no payor source represents more than 10% of the patient accounts receivable. The Hospital maintains an allowance for uncollectible accounts based on the expected collectability of patient accounts receivable.

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The State of Ohio fiscal year 2011/2012 budget also included an expansion of the UPL program to outpatient services for the first time. The Hospital received $696,443 in UPL payments in 2013. The net amount recorded in net patient service revenue for UPL by the Hospital was $696,443 in 2013.

Franchise fee: Effective July 1, 2009, the State of Ohio began assessing a franchise fee to hospitals to fund health care programs. The Hospital incurred a franchise fee expense of $487,201 in 2013 and recorded the amount in supplies and other expenses in the statement of revenues, expenses and changes in net position. The Hospital's franchise fee liability payable to the State of Ohio at December 31, 2013 was $0.

Hospital Care Assurance Program (HCAP): As a public health care provider, the Hospital renders services to residents of Hocking County and others regardless of ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. HCAP amounts included in net patient service revenue amount to $530,785 for the year ended December 31, 2013 which represents the difference between the Hospital's 2013 allocation in the amount of $750,144 and the assessments paid by the Hospital in the amount of $219,359. Included in net patient accounts receivable is $750,144 related to HCAP which was received in the first quarter of 2014.

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. Charges forgone under the Hospital's charity care policy were $3,599,550 in 2013.

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements

GASB has issued the following statements that have been recently implemented by the Hospital:

Statement No. 61 – *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The Hospital implemented the provisions of this Statement for the year ended December 31, 2013. There was no significant impact as a result of the application of this Statement.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations. The Hospital implemented the provisions of this Statement for the year ended December 31, 2013. There was an impact to the financial statements as a result of the application of this Statement. See Note 15.

GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The Hospital implemented the provisions of this Statement for the year ended December 31, 2013. There was no significant impact as a result of the application of this Statement.

GASB has recently issued the following statements not yet implemented by the Hospital:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions,* requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The Hospital is required to implement the provisions of this Statement for the year ending December 31, 2015.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as merger, acquisitions, and transfers of operations. The Hospital is required to implement the provisions of this Statement for the year ending December 31, 2014.

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements (Continued)

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The Hospital is required to implement the provisions of this Statement for the year ending December 31, 2014.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Note 4. Deposits and Investments

Deposits: State law requires insurance or collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

Custodial credit risk: Custodial credit risk is the risk that, in the event of bank failure, the Hospital's deposits might not be recovered. The FDIC increased insurance through December 31, 2013 for funds held in interest-bearing accounts from $100,000 to $250,000 per depositor per category of legal ownership. The Hospital's investment policy does not address custodial credit risk.

The bank balances of the Hospital's deposits at December 31, 2013 totaled $909,772 and were subject to the following categories of custodial credit risk:

Uncollateralized	$ -
Collateralized with securities held by the pledging institution's trust department, but not in the Hospital's name	600,137
Total amount subject to custodial risk	600,137
Amount insured	309,635
Total bank balances	$ 909,772

Investments:

The Hospital: The Hospital has adopted an investment policy that is consistent with the allowable investments provided by the Auditor of State (Ohio). The policy authorizes the Hospital to invest in the following:

- United States obligations or any other obligation guaranteed as to principal and interest by the United States.
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality.
- Interim deposits in the eligible institutions applying for interim monies as provided in Ohio Revised Code Section 135.08.
- Bonds or other obligations of the State of Ohio.
- The Ohio Subdivisions Fund (Star Ohio) as provided in Ohio Revised Code Section 135.45.
- Certificates of deposit.

Note 4. Deposits and Investments (Continued)

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At December 31, 2013, 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:

		Investment Maturities	
		Less than 1 Year	1-5 Years
U.S. Government Agencies			
AA+	$ 3,423	$ -	$ 3,423
Money Market Funds			
AAA	119,731	119,731	-
Not rated	340,391	340,391	-
	$ 463,545	$ 460,122	$ 3,423

Interest rate risk: The Hospital's investment policies limit investment portfolios to maturities of five years or less. All of the Hospital's investments at December 31, 2013 have effective maturity dates of less than five years.

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address custodial credit risk.

The Foundation: As of December 31, 2013, the fair values of the Foundation's investments were as follows:

Mutual funds	$ 342,770
Exchange traded funds	78,548
Money market funds	289
Privately held common stock	155,017
Total investments	$ 576,624

The Foundation's investments are reflected in the statement of net position as follows at December 31, 2013:

Investments - current assets	$ 348,362
Restricted investments - noncurrent assets	228,262
Total	$ 576,624

The Foundation's investment income for the year ended December 31, 2013 consisted of the following:

Interest and dividends, net of investment management fees	$ 22,655
Net change in unrealized gains	59,337
Total	$ 81,992

Note 4. Deposits and Investments (Continued)

Fair value measurements: Generally Accepted Accounting Principles for the Foundation establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are those that market participants would use in measuring investments at fair value based on market data obtained from sources independent of the agency. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in measuring investments at fair value based on the best information available in the circumstances. Investments are measured and disclosed in one of the three levels based on the reliability of inputs:

- Level 1 – Valuations based on quoted market prices in active markets for identical investments as of the reporting date.

- Level 2 – Valuations based on other than quoted market prices in active markets, dealer or broker markets. Fair values are primarily obtained from third party pricing services for similar investments as of the reporting date.

- Level 3 – Valuations derived from other methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, dealer, or broker-traded transactions. The determination of fair value requires significant management judgment or estimation.

Level 3 valuations incorporate certain assumptions and projections that are not observable in the market in determining the fair value for investments and assets held by others as of the reporting date. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosures purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

The Foundation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer.

The following is a description of the valuation techniques used for the Foundation's investments measured at fair value:

Mutual funds and exchange traded funds: The Foundation's investments in these securities are traded on a public exchange. The valuation techniques for securities have been consistent year over year.

Privately held common stock: The investment is comprised of holdings in a private corporation' s class A common stock. The investment is valued at fair value from reports provided by the corporation's management. Because of the inherent uncertainty of the valuation, the fair values may differ significantly from values that would have been used had a ready market for these investments existed, and the differences could be material. The Foundation is credited a pro rata share of investment returns based upon units of ownership interest.

Note 4. Deposits and Investments (Continued)

The following investments were measured at fair value on a recurring basis as of December 31, 2013, using unadjusted quote prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1	Level 2	Level 3	Total
Exchange traded funds				
Bonds, Aa	$ 40,506	$ -	$ -	$ 40,506
Domestic	32,272	-	-	32,272
International	5,770	-	-	5,770
Mutual funds				
Domestic	255,845	-	-	255,845
International	86,925	-	-	86,925
Privately held common stock	-	-	155,017	155,017
	$ 421,318	$ -	$ 155,017	$ 576,335
Money market funds				289
Total				$ 576,624

The following table represents a reconciliation of activity for the Level 3 privately held common stock:

Balance, January 1, 2013	$ 142,543
Investment income	12,474
Balance, December 31, 2013	$ 155,017

Note 5. Capital Assets

Capital assets additions, retirements, and balances as of and for the year ended December 31, 2013 were as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 255,120	$ -	$ -	$ -	$ 255,120
Construction in process	499,060	687,846	(815,446)	-	371,460
Total nondepreciated capital assets	754,180	687,846	(815,446)	-	626,580
Depreciable capital assets:					
Land improvements	428,585	10,590	-	-	439,175
Buildings and improvements	14,260,626	51,276	778,153	-	15,090,055
Equipment	11,994,009	782,590	37,293	(45,000)	12,768,892
Total depreciable capital assets	26,683,220	844,456	815,446	(45,000)	28,298,122
Less accumulated depreciation:					
Land improvements	(315,892)	(13,746)	-	-	(329,638)
Buildings and improvements	(7,483,863)	(432,328)	-	-	(7,916,191)
Equipment	(8,689,300)	(962,988)	-	23,774	(9,628,514)
Total accumulated depreciation	(16,489,055)	(1,409,062)	-	23,774	(17,874,343)
Total depreciable capital assets, net	10,194,165	(564,606)	815,446	(21,226)	10,423,779
Total capital assets, net	$ 10,948,345	$ 123,240	$ -	$ (21,226)	$ 11,050,359

Note 5. Capital Assets (Continued)

Total depreciation expense related to capital assets for 2013 was $1,409,062.

The cost of equipment under capital lease included in capital assets as of December 31, 2013 was as follows:

Cost of equipment under capital lease	$ 3,209,152
Accumulated amortization	(1,516,818)
Net carrying amount	$ 1,692,334

Note 6. Line of Credit

The Hospital has a $1,000,000 line of credit with a bank. There were no amounts outstanding at December 31, 2013. Interest on the line of credit is a variable rate equal to Prime plus .87%, which was approximately 4.12% at December 31, 2013. The loan is secured by patient accounts receivable, which have a net book value of $4,468,632 at December 31, 2013.

Note 7. Long-Term Debt and Capital Lease Obligations

Information regarding the Hospital's long-term debt and capital lease activity and balances as of and for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
1993 County Hospital Refunding and Improvement Bond Series	$ 65,000	$ -	$ (65,000)	$ -	$ -
1999 County Hospital Refunding and Improvement Bond Series	1,170,000	-	(145,000)	1,025,000	150,000
Note payable, Hocking Valley Community Hospital Memorial Fund, Inc.	330,002	170,000	-	500,002	300,000
Capital lease obligations	1,133,494	575,868	(534,693)	1,174,669	440,116
	2,698,496	745,868	(744,693)	2,699,671	890,116
Bond discount	(18,960)	-	4,805	(14,155)	-
Long-term debt	$ 2,679,536	$ 745,868	$ (739,888)	$ 2,685,516	$ 890,116

Effective July 1, 1993, Hocking County, Ohio, acting by and through the Board of Trustees of Hocking Valley Community Hospital, issued $3,300,000 of County Hospital Refunding and Improvement Bonds (1993 Bonds). The proceeds of the 1993 Bonds were used to advance refund $2,040,000 Hocking County Refunding Bonds, repay a capital lease and construct certain Hospital improvements. The bonds bore interest at 5.45%. The bonds matured in varying amounts through December 1, 2013. The Hospital has agreed with the Hocking County Commissioners, as Trustee of the 1993 Bonds, to maintain a minimum operating reserve of $330,000. During 2013, this restriction was lifted due to the repayment of the outstanding balance of the 1993 Bonds.

Effective March 1, 1999, Hocking County, Ohio, acting by and through the Board of Trustees of Hocking Valley Community Hospital, issued $2,610,000 of County Hospital Improvement Bonds, Series 1999 (1999 Bonds). The proceeds of the 1999 Bonds were used to acquire and finance certain Hospital improvements. The bonds bear interest at rates ranging from 3.30% to 4.75%. The bonds mature in varying amounts each June 1 and December 1 through December 1, 2019.

Note 7. Long-Term Debt and Capital Lease Obligations (Continued)

The 1999 Bonds are unvoted general obligations of the County. The basic security for the bonds is the County's ability to levy an ad valorem tax on all real and personal property in the County.

The Hospital's note payable to the Foundation requires quarterly payments of $25,000 commencing March 2012 through December 2016, when a final payment of $25,002 is due. The proceeds of the note were used to construct certain Hospital improvements. The note is uncollateralized and has a service fee payable with each quarterly payment at a rate equal to 0.25% plus the highest certificate of deposit rate of any certificate of deposit held by the Foundation. Interest per the agreement was 0% and management determined that imputed interest was immaterial. The Foundation has reflected this balance as a corresponding note receivable on its statement of net position at December 31, 2013.

Capital lease obligations have varying rates of imputed interest ranging from 0.6% to 18.3%. The obligations are collateralized by leased equipment and mature at varying amounts through 2018.

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2013, are as follows:

	Capital Lease Obligations			Long-Term Debt		
	Principal	Interest	Total	Principal	Interest	Total
2014	$ 440,116	$ 71,085	$ 511,201	$ 450,000	$ 48,688	$ 498,688
2015	289,817	44,951	334,768	260,000	41,563	301,563
2016	199,615	27,415	227,030	265,002	33,963	298,965
2017	189,460	9,984	199,444	175,000	26,125	201,125
2018	55,661	688	56,349	185,000	17,813	202,813
2019	-	-	-	190,000	9,025	199,025
	$ 1,174,669	$ 154,123	$ 1,328,792	$ 1,525,002	$ 177,177	$ 1,702,179
Bond discount				(14,155)		
Total long-term debt, net				$ 1,510,847		

Note 8. Estimated Amounts Due to Third-Party Payors

The Hospital has agreements with third-party payors that provide for payment of amounts different from established rates. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined. See Note 11 for additional information. As of December 31, 2013, management has determined that there are no amounts due to third-party payors. The Hospital recorded a favorable adjustment to net patient revenue of $362,049 due to prior year retroactive adjustments to amounts previously estimated.

Note 9. Other Long-Term Liabilities

Compensated absences: The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to 400 hours, to be carried over to the subsequent year. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Upon retirement, employees with a minimum of 5 years of service have sick leave balances paid out at 25% of eligible hours at their current rate of pay. The maximum payout is 240 hours. As of December 31, 2013, the liability for accrued vacation and sick leave was $922,004.

Other Long-Term Liabilities: Information regarding the Hospital's other long-term liabilities activity and balances as of and for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Amounts due to third-party payors	$ 362,049	$ -	$ 362,049	$ -	$ -
Accrued vacation	829,950	299,789	352,700	777,039	315,872
Accrued sick leave	386,938	86,750	328,723	144,965	14,539
	$ 1,578,937	$ 386,539	$ 1,043,472	$ 922,004	$ 330,411

Risk management: The Hospital is exposed to various risks of loss related to torts; theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital is self-insured for employee health insurance. For the employee health claims, a historical analysis has been performed of incurred but not reported claims to determine the liability at December 31, 2013. For medical malpractice, the Hospital has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the annual aggregate. In addition, the Hospital has umbrella coverage of $2,000,000 per occurrence and $2,000,000 in the annual 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 $3,000,000 in the annual aggregate. The Hospital's coverage is on a claims made basis. Settled claims for medical malpractice have not exceeded insurance coverage in any of the past three years.

Losses from asserted and unasserted claims identified under the Hospital's incident reporting systems are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. There is no liability for medical malpractice at December 31, 2013. The liability for estimated self-insured employee health claims includes estimates of the ultimate costs for both reported claims and incurred but not reported claims, and activity and balances as of and for the years ended December 31, 2013 and 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2013	$ 330,377	$ 3,351,164	$ 3,388,243	$ 293,298	$ 293,298
2012	200,000	3,641,131	3,510,754	330,377	330,377

Note 10. Endowment

Foundation:

Endowment funds: The Foundation's endowment consists of an individual donor restricted endowment fund established for operating purposes. Its endowment includes both a donor – restricted endowment fund and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor - imposed restrictions.

Note 10. Endowment (Continued)

Interpretation of relevant law: The Board of Directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as restricted, nonspendable net position as (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In addition, UMIFA introduced the concept of total return expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of endowment net position for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income. Thus asset growth and income can be appropriated for program purposes, subject to the rule that a fund cannot be spent below "historic dollar value."

Beginning June 1, 2009, in accordance with the State Prudent Management of Institutional Funds Act (UPMIFA), the portion of the donor-restricted endowment fund that is not classified in restricted, nonspendable net position will be classified as restricted, program activities net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation will consider the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources
(7) The investment policies

Changes in net position related to endowments for the year ended December 31, 2013 are as follows:

	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Balance at January 1, 2013	$ 290,000	$ 52,710	$ 139,236	$ 481,946
Net investment income	-	36,316	-	36,316
Balance at December 31, 2013	$ 290,000	$ 89,026	$ 139,236	$ 518,262

Endowment net asset composition by type of fund as of December 31, 2013 is as follows:

	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Funds functioning as endowment	$ 290,000	$ -	$ -	$ 290,000
Donor-restricted endowment	-	89,026	139,236	228,262
	$ 290,000	$ 89,026	$ 139,236	$ 518,262

Note 10. Endowment (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there are no deficiencies of this nature that are reported in unrestricted net position.

Return objectives and risk parameters: The Foundation has adopted an investment policy for endowment assets that attempts to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as unrestricted net position designated as endowment. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a variety of indexes/benchmarks, which include the S&P 500 index, while assuming a moderate level of investment risk. Long term investment performance is expected to exceed the trailing three-year average of the appropriate benchmark.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Foundation seeks to maximize the long-term total return of its financial assets consistent with its current and future funding needs. In line with these objectives, it is the intent of the Foundation that all income and capital gains generated in the portfolio to be retained within the endowment fund and periodically reinvested in accordance with the Investment Policy. It will be the policy of the Foundation to transfer from the endowment funds to available funds an amount not to exceed 75% of the total return earned by the endowment. In this way, a portion of the total return will be added back to the principal of the fund to provide growth of the fund. The transfer of available funds shall also be limited in such a manner as to not decrease the designated principal of the fund. Available funds earned that are required to maintain the principal will not be transferred.

This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11. 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. CAHs 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 reimbursed based on fee schedules.

The Hospital and the Hospital's swing beds are 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.

Note 11. Net Patient Service Revenue (Continued)

The closure of the Hospital's Extended Care Facility was announced on October 1, 2012 and the official closing date was December 31, 2012.

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that "meaningfully use" certified electronic health record (EHR) technology. The Hospital has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the incentive programs.

Medicare payments to CAHs are based on the Medicare-defined reasonable costs of furnishing Medicare-covered services to beneficiaries. Medicare reimburses CAHs for the undepreciated cost of capital assets related to EHR technology. Final settlements will be determined after the submission of the current annual cost reports and subsequent audits by the fiscal intermediary.

CAHs that are not meaningful users will be subject to a payment adjustment for federal fiscal year (FFY) 2015. This payment adjustment is applicable to a CAH's Medicare reimbursement for inpatient services during the cost reporting period in which they failed to demonstrate meaningful use. If a CAH has not demonstrated meaningful use for an applicable reporting period, then for a cost reporting period that begins in FFY 2015, its reimbursement would be reduced from 101 percent of its reasonable costs to 100.66 percent. For a cost reporting period beginning in FFY 2016, its reimbursement would be reduced to 100.33 percent of its reasonable costs. For a cost reporting period beginning in FFY 2017 and each subsequent fiscal year, its reimbursement would be reduced to 100 percent of reasonable costs.

During the year ended December 31, 2013, the Hospital recognized approximately $1.3 million in meaningful-use incentive payments based on the undepreciated cost of capital assets related to EHR technology. The Hospital views the earnings process as having been completed in the period in which the meaningful-use criteria are met and therefore recognized the entire payment as revenue at that time. Because the incentive payments are directly linked to the payments the Hospital receives for providing care to Medicare beneficiaries, the Hospital considers the incentive payments to be part of net patient service revenue.

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.

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.

In 2013, approximately 51% of the Hospital's total net patient revenue was derived from Medicare payments while 6% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the estimated amounts accrued at interim and final settlements are reported in the statement of revenues, expenses and changes in net position in the year of settlement. The Hospital had a favorable adjustment of $362,049 to net patient service revenue in 2013 due to the removal of allowances that were no longer considered necessary based on tentative or final settlements in excess of amounts previously estimated.

Note 11. Net Patient Service Revenue (Continued)

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2013 is as follows:

Gross patient service revenue	$ 75,386,124
Less third-party contractual allowances	37,545,629
Less provision for bad debts	3,786,487
Net patient service revenue	$ 34,054,008

Note 12. Benefit Plans

Pension plan: Employee retirement benefits are available for substantially all employees under three separate retirement plans administered by the Ohio Public Employees Retirement System (OPERS). The plans are the Traditional Pension Plan — a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan — a defined contribution pension plan in which the members invest both member and employee contributions (employer contributions vest over five years at 20% per year) and the Combined Plan — a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employee contributions plus any investment earnings. OPERS provides retirement, disability, survivor, and post employment healthcare benefits, to the Traditional Pension and Combined Plan members, however, healthcare benefits are not statutorily guaranteed. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Information related to the OPERS as a whole is included in the County's Comprehensive Annual Financial Report. A separate valuation of pension benefits is not performed for the Hospital's employees.

OPERS issues a stand-alone financial report and may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377. The Ohio Revised Code provides statutory authority for employee and employer contributions.

The Ohio Revised Code provided the statutory authority requiring public employers to fund pensions through their contributions to OPERS.

Post employment benefits: OPERS maintains a cost-sharing multiple employer defined benefit post employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits including post employment healthcare coverage.

In order to qualify for post employment healthcare coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit.

Healthcare coverage of disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post employment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post employment healthcare benefit.

Note 12. Benefit Plans

OPERS' Post Employment HealthCare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2% for both plans, as recommended by the OPERS actuary.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Hospital's contributions for 2013 used to fund post employment healthcare benefits were $503,116, which is included in the Hospital's contractually required contribution of $1,760,995 for the year ended December 31, 2013.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Contributions: For 2013, employees contributed at a rate of 10.0% of covered payroll for pension and post employment benefits. The employer contribution rates are expressed as a percentage of the covered payroll of active members. State and local employers contributed at a rate of 13.0% and 1.0% of covered payroll for the pension and post employment benefit plans, respectively. Member and employer contribution rates were consistent across all three pension plans. Employee contributions to OPERS for the year ended December 31, 2013 were $1,258,638. The Hospital's contributions to OPERS for the year ended December 31, 2013 were $1,760,995, equal to the required contribution for the year. Active members do not make contributions to the OPEB Plan.

Note 13. Related Parties

Hocking Valley Community Hospital Memorial Fund, Inc.: The Hospital is the primary beneficiary of The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation). The Foundation is a separate not-for-profit entity organized for the purpose of soliciting gifts for the benefit of the Hospital. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Hospital has reported the Foundation as a discretely presented component unit in the Hospital's 2013 financial statements. The Hospital received support from the Foundation in the amount of $150,000 in 2013, which is recorded as capital grants and contributions on the statement of revenues, expenses and changes in net position. In addition, the Foundation advanced $170,000 to the Hospital in 2013 for capital acquisitions as disclosed in Note 7.

The Hospital entered into a 10-year non-cancelable lease with the Foundation for the Medical Arts Building that expires in September 2018. 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 years ending December 31 are as follows:

2014	$ 75,075
2015	75,075
2016	75,075
2017	75,075
2018	56,306
Total future minimum lease payments	$ 356,606

Note 13. Related Parties (Continued)

Hocking Valley Medical Group, Inc. (HVMG): HVMG is 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. The financial activities of HVMG are not consolidated with that of the Foundation because of the absence of the required criteria, control and economic interest, that would require consolidation.

During the year ended December 31, 2013, the Hospital disbursed funds totaling $1,826,000 on behalf of HVMG to fund operating deficits. These amounts were paid to the Foundation, who acting as fiscal agent, remitted the funds to HVMG. There were no amounts due to or receivable from HVMG at December 31, 2013.

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 Trustees of the Hospital. The Board of Trustees of HVHS is elected by HVHS' members. The Board of Trustees of the Hospital controls 50% of the voting rights of the HVHS Board. HVHS has not entered into any financial activities as of or for the year ended December 31, 2013. Therefore, the Hospital's financial statements exclude the activities of HVHS.

Note 14. Commitments and Contingencies

Regulatory environment including fraud and abuse matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

Patient Protection and Affordable Care Reconciliation Act: On March 23, 2010, the most sweeping health care legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Reconciliation Act and adds some new provisions that were not included originally. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the health care delivery system. On June 28, 2012, The United States Supreme Court upheld the constitutionality of components of the Affordable Care Act, allowing the historic overhaul of the health care system to continue. Potential impacts of health care reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation, and significant required investments in health care information technology.

Note 14. Commitments and Contingencies

Centers for Medicare and Medicaid Services Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor Program (RAC) program. The RAC's identified and corrected a significant amount of improper payments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. The Centers for Medicare and Medicaid Services (CMS) has rolled out this program nationally.

Note 15. Restatement for Implementation of a New Accounting Standard

For the year ended December 31, 2013, the Hospital implemented the provisions of GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Among other changes, this Statement changed the manner in which governments account for most debt issuance costs. Under this Statement, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as expense in the period incurred. As a result of implementing this Statement, the Hospital was required to remove debt issuance costs that had previously been reported as deferred financing costs, net, and restate net position to the earliest period presented. The effect of the restatement on net position is as follows:

	2013
Net position, as previously reported, January 1	$ 9,201,877
Adjustment to write-off debt issuance costs	(22,754)
Net position as restated, January 1	$ 9,179,123

Supplementary Information

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Net Position
December 31, 2013 and 2012

		2013		2012 (Restated)
Assets				
Current Assets				
Cash and cash equivalents	$	600,057	$	341,101
Patient accounts receivable, net of estimated, uncollectibles of $1,073,000 in 2013 and $1,016,000 in 2012		4,468,632		4,611,143
Certificates of deposit		35,037		246,976
Investments		463,545		139,038
Inventories		328,084		304,862
Prepaid expenses and other assets		1,052,104		485,662
Total current assets		6,947,459		6,128,782
Noncurrent Assets:				
Certificates of deposit		217,821		-
Restricted assets under bond indenture agreement, cash		-		330,000
Total noncurrent assets		217,821		330,000
Capital Assets				
Land and construction in progress		626,580		754,180
Buildings, land improvements and equipment, net		10,423,779		10,194,165
Capital assets, net		11,050,359		10,948,345
Total assets	$	18,215,639	$	17,407,127

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Net Position
December 31, 2013 and 2012

	2013	2012 (Restated)
Liabilities and Net Position		
Current Liabilities		
Line of credit	**$ -**	$ 300,000
Current portion of capital lease obligations	**440,116**	484,388
Current portion of long-term debt	**450,000**	310,000
Accounts payable and accrued expenses	**2,046,594**	2,151,563
Accrued payroll and related liabilities	**1,149,303**	1,187,591
Self-insurance liabilities	**293,298**	330,377
Estimated amounts due to third-party payors	**-**	362,049
Current portion of accrued vacation and sick leave	**330,411**	381,993
Total current liabilities	**4,709,722**	5,507,961
Noncurrent Liabilities, net of current portions		
Accrued vacation and sick leave	**591,593**	834,895
Capital lease obligations	**734,553**	649,106
Long-term debt	**1,060,847**	1,236,042
Total noncurrent liabilities	**2,386,993**	2,720,043
Total liabilities	**7,096,715**	8,228,004
Net Position		
Net investment in capital assets	**8,364,843**	8,268,809
Restricted, debt service payments	**-**	330,000
Unrestricted	**2,754,081**	580,314
Total net position	**11,118,924**	9,179,123
Total liabilities and net position	**$ 18,215,639**	$ 17,407,127

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Revenues		
Net patient service revenue	$ 34,054,008	$ 31,914,435
Other operating revenue	404,067	295,557
Total operating revenues	34,458,075	32,209,992
Operating Expenses		
Salaries and wages	12,919,174	13,964,798
Employee benefits	5,537,168	6,390,296
Supplies and other expenses	6,378,207	6,965,044
Professional fees and services	4,677,136	4,645,920
Depreciation and amortization	1,409,062	1,469,096
Insurance	159,456	136,849
Total operating expenses	31,080,203	33,572,003
Operating income (loss)	3,377,872	(1,362,011)
Nonoperating Revenues (Expenses)		
Funding to Hocking Valley Community Hospital Memorial Fund, Inc.	(1,826,000)	(2,474,000)
Net investment income	9,757	7,107
Interest expense	(148,486)	(145,810)
Gain on sale of capital assets	(16,726)	182,224
Noncapital grants and contributions	393,384	259,751
Total nonoperating revenues (expenses)	(1,588,071)	(2,170,728)
Excess (deficiency) of revenues over expenses before capital grants and contributions	1,789,801	(3,532,739)
Capital grants and contributions	150,000	-
Increase (decrease) in net position	1,939,801	(3,532,739)
Net position, beginning of year, as restated	9,179,123	12,711,862
Net position, end of year	$ 11,118,924	$ 9,179,123

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Cash Flows From Operating Activities		
Cash received from patients and third party payors	**$ 33,834,470**	$ 32,456,900
Cash paid to employees for wages and benefits	**(18,826,593)**	(20,058,853)
Cash paid to vendors for goods and services	**(11,909,432)**	(10,566,025)
Other receipts	**404,067**	295,557
Net cash provided by operating activities	**3,502,512**	2,127,579
Cash Flows From Noncapital Financing Activities		
Contributions	**393,384**	259,751
(Payments) borrowings on line of credit	**(300,000)**	300,000
Funding to Hocking Valley Community Hospital Memorial Fund, Inc.	**(1,826,000)**	(2,474,000)
Net cash used in noncapital financing activities	**(1,732,616)**	(1,914,249)
Cash Flows From Capital and Related Financing Activities		
Repayment of long-term debt	**(210,000)**	(228,500)
Repayment of capital lease obligations	**(534,693)**	(821,959)
Interest paid on long-term debt	**(143,681)**	(141,040)
Purchase of capital assets	**(786,434)**	(660,123)
Proceeds from the sale of capital assets	**4,500**	184,898
Net cash used in capital and related financing activities	**(1,520,308)**	(1,666,724)
Cash Flows From Investing Activities		
Investment income	**9,757**	7,107
Payments for investment purchases and reinvestments	**(330,389)**	(632)
Net cash (used in) provided by investing activities	**(320,632)**	933,575
Net decrease in cash and cash equivalents	**(71,044)**	(519,819)
Cash and cash equivalents		
Beginning	**671,101**	1,190,920
Ending	**$ 600,057**	$ 671,101

(Continued)

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

		2013		2012 (Restated)
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	**$**	**3,377,872**	$	(1,362,011)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization		**1,409,062**		1,469,096
Provision for bad debts		**3,786,487**		3,944,403
Changes in:				
Patient accounts receivable		**(3,643,976)**		(3,369,915)
Inventories, prepaid expenses and other assets		**(589,664)**		(404,021)
Accounts payable and accrued expenses		**(104,969)**		1,585,809
Accrued payroll and related liabilities		**(38,288)**		172,044
Self-insurance liabilities		**(37,079)**		130,377
Estimated amounts due to third-party payors		**(362,049)**		(32,023)
Accrued vacation and sick leave		**(294,884)**		(6,180)
Net cash provided by operating activities	**$**	**3,502,512**	$	2,127,579
Supplemental Disclosure of Noncash Financing Activities:				
Assets acquired under capital lease obligations	**$**	**575,868**	$	851,135
Assets acquired through issuance of debt	**$**	**170,000**	$	330,002

McGladrey

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 of
Hocking Valley Community Hospital
Logan, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Hocking Valley Community Hospital (the Hospital) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated April 24, 2014. Our report contains an emphasis of matter to describe the restatement of net position for the implementation of GASB Statement No. 65. The financial statements of the Hocking Valley Community Hospital Memorial Fund, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Hocking Valley Community Hospital Memorial Fund, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

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* (Continued)

Purpose of this Report

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

McGladrey LLP

Cleveland, Ohio
April 24, 2014

Hocking Valley Community Hospital
(A Component Unit of Hocking County, State of Ohio)

Summary Schedule of Prior Year Findings and Responses
Year Ended December 31, 2013

Finding Number:

Finding 2012-01

Finding Description:

Estimates

Summary of Prior Audit Finding:

Audit adjustments were proposed to the following account balances:

- Contractual allowances and bad debts
- Estimated amounts due to third-party payors
- Self-insured employee health liability

These conditions were identified during the audit of the estimation processes surrounding these account balances and corroboration with underlying records. A recommendation was made that policies and procedures surrounding the estimation process associated with these accounts be enhanced to ensure that the estimates reflected on the financial statements are appropriate and reasonable.

Status:

Internal controls were put in place, as well as enhancements made to the system reports and spreadsheets that assisted in the calculation of the estimates. Standardizing both the reports and the spreadsheets allowed for more consistency when calculating the estimates to ensure they were appropriate.

Dave Yost • 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
JUNE 10, 2014

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