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

Financial Report
December 31, 2014

Dave Yost • Auditor of State

Board of Trustees
Hocking Valley Community Hospital
PO Box 966
Logan, OH 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, 2014 through December 31, 2014. 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

Dave Yost
Auditor of State

June 17, 2015

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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 years ended December 31, 2014 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The Hocking Valley Community Hospital Memorial Fund, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* for the year ended December 31, 2013.

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, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-7 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 audits were 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 Statements of Net Position of Hocking Valley Community Hospital as of December 31, 2014 and 2013, and the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows for the years then ended, are presented for purposes of additional analysis and are 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 audits of the basic financial statements for the years ended December 31, 2014 and 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 Statements of Net Position as of December 31, 2014 and 2013, and the Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2014 and 2013, are fairly stated, in all material respects, in relation to the basic financial statements as a whole for the years ended December 31, 2014 and 2013.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 30, 2015 and 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 those reports 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. Those reports are 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. As noted previously, the financial statements of The Hocking Valley Community Hospital Memorial Fund, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* for the year ended December 31, 2013.

McGladrey LLP

Cleveland, Ohio
April 30, 2015

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, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 8. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net position increased by $174 or 1.6% and $1,940 or 21.1% in 2014 and 2013, respectively.
- The Hospital reported operating income of $1,805 and $3,378 in 2014 and 2013, respectively.
- Total operating revenues decreased from 2013 to 2014 by $3 or 0.01%. Total operating revenues increased from 2012 to 2013 by $2,248 or 7.0%.
- The Hospital expended $1,916 and $1,826 in 2014 and 2013, respectively, in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess of expenses over revenues before capital grants and contributions of $46 and $1,790 in 2014 and 2013, respectively.
- The Hospital made significant capital additions totaling $1,232, and $1,532 in 2014 and 2013, respectively, of which $734 and $786 were funded from operations in 2014 and 2013, respectively, and $498 and $746 were financed through capital lease obligations, in 2014 and 2013, respectively.

Using This Annual Report

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

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

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 Statements of Net Position and the Statements 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 Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital related financing and capital 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 Statements of Net Position on page 9. The Hospital's net position increased by $174 or 1.6% and $1,940 or 21.1% in 2014 and 2013, respectively, as you can see from Table 1.

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

	2014	2013	2012
Assets			
Current assets and other assets	$ 9,020	$ 7,165	$ 6,459
Capital assets, net	10,725	11,050	10,948
Total assets	$ 19,745	$ 18,215	$ 17,407
Liabilities			
Current liabilities	$ 6,403	$ 4,709	$ 5,508
Long-term obligations	2,049	2,387	2,720
Total liabilities	8,452	7,096	8,228
Net Position			
Net investment in capital assets	8,445	8,365	8,269
Restricted	-	-	330
Unrestricted	2,848	2,754	580
Total net position	$ 11,293	$ 11,119	$ 9,179

A significant component of the Hospital's assets are capital assets. Capital assets, net, decreased by $325, or 2.9% in 2014. Fixed assets acquired by the Hospital were $1,232 in 2014. These additions were offset by depreciation and amortization of $1,558. During 2013, capital assets, net, increased by $102, or 0.9%. Fixed assets acquired by the Hospital were $1,532. These additions were offset by depreciation of $1,409.

(Dollars in Thousands)

Operating Results and Changes in the Hospital's Net Position

Table 2: Change in Revenues and Expenses

	2014	2013	2012
Revenues			
Net patient service revenue	$ 33,882	$ 34,054	$ 31,914
Other	573	404	296
Total operating revenue	34,455	34,458	32,210
Expenses			
Salaries and wages	13,253	12,919	13,965
Employee benefits	5,603	5,537	6,390
Supplies and other	7,253	6,378	6,965
Professional fees and services	4,844	4,677	4,646
Depreciation and amortization	1,558	1,409	1,469
Insurance	139	160	137
Total operating expenses	32,650	31,080	33,572
Operating income (loss)	1,805	3,378	(1,362)
Nonoperating revenues (expenses)	(1,759)	(1,588)	(2,171)
Capital grants and contributions	128	150	-
Change in net position	$ 174	$ 1,940	$ (3,533)

Net patient service revenue decreased $172 or 0.5% from 2013 to 2014. This decrease was primarily due to a decrease in the Medicare cost to charge ratio from 32.0% in 2013 to 28.0% in 2014, as well as a decrease in the Hospital's inpatient per diem rate. 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 increased 2.6% from 2013 to 2014. This is primarily attributed to a one-time bonus payment paid to employees in 2014. Salaries and wages decreased 7.5% from 2012 to 2013. This was primarily attributed to the closing of a 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 3.6% from 2013 to 2014, This was primarily related to legal fees incurred during the decision-making process by the Hocking Valley Community Hospital Board of Trustees to pursue a deeper clinical and operational relationship with The Ohio State University Wexner Medical Center. The goal of this alignment is to gain operational efficiencies through economies of scale and to broaden clinical offerings provided by the Hospital. The Hospital also experienced an increase in computer fees related to the management of its electronic health records. 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.

(Dollars in Thousands)

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, 2014, 2013 and 2012.

	2014	2013	2012
Medicare	50%	51%	55%
Medicaid	7%	6%	9%
Self-Pay	3%	1%	1%
Commercial and other	40%	42%	35%
	100%	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 $1,805 and $3,378 in 2014 and 2013, respectively.

The decrease in the Hospital's total operating income in 2014 of $1,573, or 46.6% from 2013 is the result of a decrease in the Medicare cost to charge ratio from 32.0% in 2013 to 28.0% in 2014, as well as a decrease in the Hospital's inpatient per diem rate. The Hospital also received $1,300 in meaningful use incentive payments in 2013, as compared to $450 in 2014. The Hospital increased gross charge rates 3.0% in both 2014 and 2013. The increase in the Hospital's total operating income in 2013 of $4,747, or 346.7% as compared to 2012 is the result of an increase in Net Patient Service Revenue due to a Meaningful Use Incentive payment of $1,300, 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 during 2013.

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 $2,229 and $3,600 were waived under the Hospital's charity care policy during 2014 and 2013, respectively. The decrease from the prior year is largely due to an overall decrease of self pay patient volume, as well as the Hospital outsourcing its self pay population to a company to work with patients on setting up affordable payment arrangements and to assist with the charity screening process. Self pay collections increased nearly 7% during 2014 as a result.

Nonoperating Revenues (Expenses) and Capital Grants and Contributions

The Hospital's net investment income amounted to $16 and $10 in 2014 and 2013, respectively. The Hospital received noncapital contributions of $305 in 2014 versus $393 in 2013. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of $1,916 in 2014, an increase of $90 from the amount funded in 2013 of $1,826. The Hospital received capital grants and contributions of $128 in 2014 versus $150 in 2013.

Capital Assets and Debt Administration

Capital Assets

The Hospital had $10,725 and $11,050 net investment in capital assets at December 31, 2014 and 2013, respectively. The Hospital acquired or constructed capital assets in the amount of $1,232 and $1,532 during 2014 and 2013, respectively.

Debt

The Hospital had $2,281 and $2,686 in bonds and capital lease obligations outstanding at December 31, 2014 and 2013, respectively. Additionally, the Hospital has a line of credit with a local bank. The amount borrowed on the line of credit was $396 and $0 at December 31, 2014 and 2013, 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)

Statements of Net Position
December 31, 2014 and 2013

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
Assets	2014	2013	2014	2013
Current Assets				
Cash and cash equivalents	$ 304,411	$ 600,057	$ 388,734	$ 127,552
Patient accounts receivable, net of allowance of $1,389,000 and $1,073,000 in 2014 and 2013, respectively	4,883,748	4,468,632	-	-
Certificates of deposit	252,548	35,037	-	-
Investments	469,544	463,545	209,121	348,362
Inventories	436,372	328,084	-	-
Current portion of note receivable	-	-	244,985	300,000
Deposits with South Central Ohio Insurance Consortium	454,939	-	-	-
Prepaid expenses and other assets	2,218,541	1,052,104	50,678	6,256
Total current assets	9,020,103	6,947,459	893,518	782,170
Noncurrent Assets				
Note receivable	-	-	100,000	200,002
Certificates of deposit	-	217,821	283,393	274,992
Restricted investments	-	-	243,817	228,262
Total noncurrent assets	-	217,821	627,210	703,256
Capital Assets				
Land and construction in progress	445,580	626,580	161,834	161,834
Buildings, land improvements and equipment, net	10,279,565	10,423,779	474,803	503,361
Capital assets, net	10,725,145	11,050,359	636,637	665,195
Total assets	$ 19,745,248	$ 18,215,639	$ 2,157,365	$ 2,150,621

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

Statements of Net Position
December 31, 2014 and 2013

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2014	2013	2014	2013
Liabilities				
Current Liabilities				
Current portion of capital lease obligations	$ 393,820	$ 440,116	$ -	$ -
Line of credit	396,000	-	-	-
Current portion of long-term debt	402,620	450,000	-	-
Accounts payable and accrued expenses	3,408,384	2,046,594	98	238
Accrued payroll and related liabilities	1,038,489	1,149,303	-	-
Self-insurance liabilities	330,923	293,298	-	-
Estimated amounts due to third-party payors	18,116	-	-	-
Current portion of accrued vacation and sick leave	414,453	330,411	-	-
Total current liabilities	6,402,805	4,709,722	98	238
Noncurrent Liabilities, net of current portions				
Accrued vacation and sick leave	565,621	591,593	-	-
Capital lease obligations	678,459	734,553	-	-
Long-term debt	805,609	1,060,847	-	-
Total noncurrent liabilities	2,049,689	2,386,993	-	-
Total liabilities	8,452,494	7,096,715	98	238
Net Position				
Net investment in capital assets	8,444,637	8,364,843	636,637	665,195
Restricted, nonspendable	-	-	139,236	139,236
Restricted, program activities	-	-	104,581	89,026
Unrestricted	2,848,117	2,754,081	1,276,813	1,256,926
Total net position	$ 11,292,754	$ 11,118,924	$ 2,157,267	$ 2,150,383

See Notes to Financial Statements.

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, 2014 and 2013

	Hocking Valley Community Hospital		Component Unit The Hocking Valley Community Hospital Memorial Fund, Inc.	
	2014	2013	2014	2013
Operating Revenues				
Net patient service revenue	$ 33,881,933	$ 34,054,008	$ -	$ -
Other operating revenue	573,239	404,067	91,978	93,475
Total operating revenues	34,455,172	34,458,075	91,978	93,475
Operating Expenses				
Salaries and wages	13,253,618	12,919,174	-	-
Employee benefits	5,602,518	5,537,168	-	-
Supplies and other expenses	7,253,516	6,378,207	30,650	13,751
Professional fees and services	4,843,622	4,677,136	-	-
Depreciation and amortization	1,557,725	1,409,062	28,558	26,945
Insurance	138,790	159,456	-	-
Total operating expenses	32,649,789	31,080,203	59,208	40,696
Operating income	1,805,383	3,377,872	32,770	52,779
Nonoperating Revenues (Expenses)				
Grants to Hocking Valley Community Hospital Memorial Fund, Inc.	(1,916,000)	(1,826,000)	-	-
Net investment income	15,565	9,757	32,746	81,992
Interest expense	(163,488)	(148,486)	-	-
Loss on sale of capital assets	-	(16,726)	-	-
Grant expenses and support	-	-	(181,532)	(200,740)
Noncapital grants and contributions	304,785	393,384	122,900	112,811
Total nonoperating revenues (expenses)	(1,759,138)	(1,588,071)	(25,886)	(5,937)
Excess of revenues over expenses before capital grants and contributions	46,245	1,789,801	6,884	46,842
Capital grants and contributions	127,585	150,000	-	-
Increase in net position	173,830	1,939,801	6,884	46,842
Net position, beginning of year	11,118,924	9,179,123	2,150,383	2,103,541
Net position, end of year	$ 11,292,754	$ 11,118,924	$ 2,157,267	$ 2,150,383

See Notes to Financial Statements.

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

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from patients and third party payors	$ 33,484,933	$ 33,834,470
Cash paid to employees for wages and benefits	(18,871,255)	(18,826,593)
Cash paid to vendors for goods and services	(12,603,802)	(11,909,432)
Other receipts	573,239	404,067
Net cash provided by operating activities	2,583,115	3,502,512
Cash Flows From Noncapital Financing Activities		
Contributions	304,785	393,384
Borrowings on line of credit	400,000	-
Payments on line of credit	(4,000)	(300,000)
Grants to Hocking Valley Community Hospital Memorial Fund, Inc.	(1,916,000)	(1,826,000)
Net cash used in noncapital financing activities	(1,215,215)	(1,732,616)
Cash Flows From Capital and Related Financing Activities		
Repayment of long-term debt	(305,017)	(210,000)
Repayment of capital lease obligations	(600,733)	(534,693)
Interest paid on long-term debt	(161,089)	(143,681)
Purchase of capital assets	(734,168)	(786,434)
Proceeds from the sale of capital assets	-	4,500
Capital grants and contributions	127,585	150,000
Net cash used in capital and related financing activities	(1,673,422)	(1,520,308)
Cash Flows From Investing Activities		
Investment income	15,565	9,757
Proceeds from for investment sales and maturities	211,822	-
Payments for investment purchases and reinvestments	(217,511)	(330,389)
Net cash provided by (used in) investing activities	9,876	(320,632)
Net decrease in cash and cash equivalents	(295,646)	(71,044)
Cash and cash equivalents		
Beginning	600,057	671,101
Ending	$ 304,411	$ 600,057

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	$ 1,805,383	$ 3,377,872
Adjustments to reconcile operating income to		
net cash provided by operating activities:		
Depreciation and amortization	1,557,725	1,409,062
Provision for bad debts	3,392,130	3,786,487
Changes in:		
Patient accounts receivable	(3,807,246)	(3,643,976)
Inventories, prepaid expenses and other assets	(1,729,664)	(589,664)
Accounts payable and accrued expenses	1,361,790	(104,969)
Accrued payroll and related liabilities	(110,814)	(38,288)
Self-insurance liabilities	37,625	(37,079)
Estimated amounts due to third-party payors	18,116	(362,049)
Accrued vacation and sick leave	58,070	(294,884)
Net cash provided by operating activities	$ 2,583,115	$ 3,502,512
Supplemental Disclosure of Noncash Capital Financing Activities:		
Assets acquired under capital lease obligations	$ 498,343	$ 575,868
Assets acquired through issuance of debt	$ -	$ 170,000

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 Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements 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 Statements 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)

Statements 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 grants 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.

Deposits with South Central Ohio Insurance Consortium: The Hospital participates in an insurance consortium for employee health insurance costs. The amount reflected on the statements of net position represents assets held by the consortium to cover unpaid claims at year-end.

Capital assets: Purchased or constructed 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 statements 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 gain or loss resulting from this disposal is recorded in the statements 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 2014 and 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, 2014 and 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 statements 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 records their investments in certificates of deposit at cost while the Foundation records their investments in certificates of deposit at cost plus accrued interest. The certificates of deposit are classified on the statements 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 doubtful 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 Hospital received $652,739 and $696,443 in UPL payments in 2014 and 2013, respectively, which are reflected in net patient service revenue.

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 franchise fee expense of $442,278 and $487,201 in 2014 and 2013, respectively, and recorded the amount in supplies and other expenses in the statements of revenues, expenses and changes in net position. There was no franchise fee liability payable to the State of Ohio at December 31, 2014 and 2013.

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 $1,258,442 and $530,785 for the years ended December 31, 2014 and 2013, respectively, which represents the difference between the Hospital's 2014 and 2013 allocations in the amount of $1,483,053 and $750,144, respectively, and the assessments paid by the Hospital in the amount of $224,611 and 219,359, respectively. Included in prepaid expenses and other assets at December 31, 2014 and 2013 is $1,483,053 and $750,144, respectively, related to HCAP.

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 $2,228,858 and $3,599,550 in 2014 and 2013, respectively.

Reclassification: Certain items in the 2013 financial statements have been reclassified to conform with the 2014 presentation.

Note 3. Changes in Accounting Principles and Recent Accounting Pronouncements

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

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 implemented the provisions of this Statement for the year ended December 31, 2014.

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 implemented the provisions of this Statement for the year ended December 31, 2014.

There was no significant impact to the financial statements as a result of the implementation of these two Statements.

GASB has 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. 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.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The Hospital is required to implement the provisions of this Statement for the year ending December 31, 2016.

The implementation of these Statements is expected to have a material impact on the financial statements, note disclosures and required supplementary information of the Hospital.

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. Through December 31, 2014, FDIC (Federal Deposit Insurance Corporation) insurance for funds held in interest bearing accounts is $250,000 per depositor per category of legal ownership. Ohio Revised Code requires that deposits in excess of FDIC insured amounts are collateralized. The Hospital's investment policy does not address custodial credit risk.

The bank balances of the Hospital's deposits at December 31, 2014 and 2013 totaled $1,076,633 and $909,772, respectively, and were subject to the following categories of custodial credit risk:

	2014	2013
Uncollateralized and uninsured	$ -	$ -
Collateral held by the counterparty's agent but not in the name of the Hospital	757,454	575,218
Total amount subject to custodial risk	757,454	575,218
Amount insured	319,179	334,554
Total bank balances	$ 1,076,633	$ 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.

The Hospital's investments generally are reported at fair value, as discussed in Note 2. At December 31, 2014 and 2013, the Hospital had the following investments, maturities and ratings (per Standard & Poor's), all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

Note 4. Deposits and Investments (Continued)

	2014		
		Investment Maturities	
		Less than 1 Year	1-5 Years
U.S. Government Agencies			
AA+	$ 2,600	$ -	$ 2,600
Money Market Funds			
AAA	119,771	119,771	-
Not rated	347,173	347,173	-
	$ 469,544	$ 466,944	$ 2,600

	2013		
		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, 2014 and 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, 2014 and 2013, the fair values of the Foundation's investments were as follows:

	2014	2013
Mutual funds	$ 365,585	$ 342,770
Exchange traded funds	86,921	78,548
Money market funds	432	289
Privately held common stock	-	155,017
Total investments	$ 452,938	$ 576,624

The Foundation's investments are reflected in the statements of net position as follows at December 31, 2014 and 2013:

	2014	2013
Investments - current assets	$ 209,121	$ 348,362
Restricted investments - noncurrent assets	243,817	228,262
Total	$ 452,938	$ 576,624

Note 4. Deposits and Investments (Continued)

The Foundation's investment income for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Interest and dividends, net of investment management fees	$ 8,489	$ 22,655
Net change in unrealized gains	24,257	59,337
Total	$ 32,746	$ 81,992

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: During 2014, the investment in privately held common stock was sold. The investment was comprised of holdings in a private corporation's class A common stock. The investment was valued at fair value from reports provided by the corporation's management and the Foundation was credited a pro rata share of investment returns based upon units of ownership interest.

Note 4. Deposits and Investments (Continued)

The following investments of the Foundation were measured at fair value on a recurring basis as of December 31, 2014 and 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):

	2014			
	Level 1	Level 2	Level 3	Total
Exchange traded funds				
Bonds, Aa	$ 45,386	$ -	$ -	$ 45,386
Domestic	35,816	-	-	35,816
International	5,719	-	-	5,719
Mutual funds				
Domestic	269,356	-	-	269,356
International	96,229	-	-	96,229
	$ 452,506	$ -	$ -	452,506
Money market funds				432
Total				$ 452,938

	2013			
	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
Sale of privately held common stock	(155,017)
Balance, December 31, 2014	$ -

Note 5. Capital Assets

The Hospital's capital assets additions, retirements, and balances as of and for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 255,120	$ -	$ -	$ -	$ 255,120
Construction in process	371,460	389,801	(570,801)	-	190,460
Total nondepreciated capital assets	626,580	389,801	(570,801)	-	445,580
Depreciable capital assets:					
Land improvements	439,175	-	-	(128,651)	310,524
Buildings and improvements	15,090,055	62,060	27,039	(195,453)	14,983,701
Equipment	12,768,892	780,650	543,762	(891,680)	13,201,624
Total depreciable capital assets	28,298,122	842,710	570,801	(1,215,784)	28,495,849
Less accumulated depreciation:					
Land improvements	(329,638)	(13,636)	-	128,651	(214,623)
Buildings and improvements	(7,916,191)	(453,393)	-	195,453	(8,174,131)
Equipment	(9,628,514)	(1,090,696)	-	891,680	(9,827,530)
Total accumulated depreciation	(17,874,343)	(1,557,725)	-	1,215,784	(18,216,284)
Total depreciable capital assets, net	10,423,779	(715,015)	570,801	-	10,279,565
Total capital assets, net	$ 11,050,359	$ (325,214)	$ -	$ -	$ 10,725,145

	2013				
	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 the Hospital's capital assets for 2014 and 2013 was $1,557,725 and $1,409,062, respectively.

The Foundation: The Foundation's capital assets additions, retirements, and balances as of and for the years ended December 31, 2014 and 2013 were as follows:

	2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 161,834	$ -	$ -	$ -	$ 161,834
Total nondepreciated capital assets	161,834	-	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(275,129)	(28,558)	-	-	(303,687)
Equipment	(12,421)	-	-	-	(12,421)
Total accumulated depreciation	(287,550)	(28,558)	-	-	(316,108)
Total depreciable capital assets, net	503,361	(564,606)	-	-	474,803
Total capital assets, net	$ 665,195	$ (564,606)	$ -	$ -	$ 636,637

	2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated:					
Land	$ 151,809	$ 10,025	$ -	$ -	$ 161,834
Total nondepreciated capital assets	151,809	10,025	-	-	161,834
Depreciable capital assets:					
Buildings and improvements	778,490	-	-	-	778,490
Equipment	12,421	-	-	-	12,421
Total depreciable capital assets	790,911	-	-	-	790,911
Less accumulated depreciation:					
Buildings and improvements	(248,269)	(26,860)	-	-	(275,129)
Equipment	(12,336)	(85)	-	-	(12,421)
Total accumulated depreciation	(260,605)	(26,945)	-	-	(287,550)
Total depreciable capital assets, net	530,306	(564,606)	-	-	503,361
Total capital assets, net	$ 682,115	$ (554,581)	$ -	$ -	$ 665,195

Note 5. Capital Assets (Continued)

Total depreciation expense related to the Foundation's capital assets for 2014 and 2013 was $28,558 and $26,945, respectively.

The Hospital: The cost of equipment under capital lease included in capital assets as of December 31, 2014 and 2013 was as follows:

	2014	2013
Cost of equipment under capital lease	$ 3,661,565	$ 3,209,152
Accumulated amortization	(2,230,332)	(1,757,881)
Net carrying amount	$ 1,431,233	$ 1,451,271

Note 6. Line of Credit

The Hospital has a $1,000,000 line of credit with a bank that is collateralized by all patient accounts receivable. The line of credit will expire on November 19, 2015 and is subject to annual renewal. Interest is payable at a fixed rate (4.55% at December 31, 2014 and 2013). Information relating to the Hospital's line of credit activity as of and for the years ended December 31, 2014 and 2013 is as follows:

	2014			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ -	$ 400,000	$ (4,000)	$ 396,000

	2013			
	Beginning Balance	Borrowings	Payments	Ending Balance
Line of credit	$ 300,000	$ -	$ (300,000)	$ -

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 years ended December 31, 2014 and 2013 is as follows:

	2014				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
1999 County Hospital Refunding and Improvement Bond Series	$ 1,025,000	$ -	$ (150,000)	$ 875,000	$ 160,000
Note payable, Hocking Valley Community Hospital Memorial Fund, Inc.	500,002	-	(155,017)	344,985	244,985
Capital lease obligations	1,174,669	498,343	(600,733)	1,072,279	393,820
	2,699,671	498,343	(905,750)	2,292,264	798,805
Bond discount	(14,155)	-	2,399	(11,756)	(2,365)
Long-term debt	$ 2,685,516	$ 498,343	$ (903,351)	$ 2,280,508	$ 796,440

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

	2013				
	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. During 2013, the Hospital repaid 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.

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 statements of net position at December 31, 2014 and 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 2019.

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

Long-term debt and capital lease obligation payment requirements for fiscal years subsequent to December 31, 2014, are as follows:

	Capital Lease Obligations			Long-Term Debt		
	Principal	Interest	Total	Principal	Interest	Total
2015	$ 393,820	$ 56,033	$ 449,853	$ 404,985	$ 41,563	$ 446,548
2016	272,254	35,469	307,723	265,000	33,963	298,963
2017	263,635	15,119	278,754	175,000	26,125	201,125
2018	131,499	3,006	134,505	185,000	17,813	202,813
2019	11,071	874	11,945	190,000	9,025	199,025
	$ 1,072,279	$ 110,501	$ 1,182,780	1,219,985	$ 128,489	$ 1,348,474
Bond discount				(11,756)		
Total long-term debt, net				$ 1,208,229		

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, 2014, management has determined that there is $18,116 due to third-party payors.

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 10 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, 2014 and 2013, the liability for accrued vacation and sick leave was $980,074 and $922,004, respectively.

Other long-term liabilities: Information regarding the Hospital's other long-term liabilities activity and balances as of and for the years ended December 31, 2014 and 2013 is as follows:

	2014				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued vacation	$ 777,039	$ 613,955	$ (543,698)	$ 847,296	$ 378,712
Accrued sick leave	144,965	57,494	(69,681)	132,778	35,741
	$ 922,004	$ 671,449	$ (613,379)	$ 980,074	$ 414,453

Note 9. Other Long-Term Liabilities (Continued)

	2013				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
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
	$ 1,216,888	$ 386,539	$ (681,423)	$ 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 as well as being self-insured for employee health insurance.

Medical malpractice: 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, 2014 and 2013.

Employee health insurance: For the employee health claims, a historical analysis has been performed of incurred but unpaid claims to determine the liability at December 31, 2014 and 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, 2014, 2013 and 2012 are as follows:

	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2014	$ 293,298	$ 2,991,145	$ 2,953,520	$ 330,923
2013	330,377	3,351,164	3,388,243	293,298
2012	200,000	3,641,131	3,510,754	330,377

Note 10. Endowment

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 State Prudent Management of Institutional Funds Act (UPMIFA) 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, UPMIFA 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."

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 years ended December 31, 2014 and 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
Net investment income	-	15,555	-	15,555
Balance at December 31, 2014	$ 290,000	$ 104,581	$ 139,236	$ 533,817

Note 10. Endowment (Continued)

Endowment net asset composition by type of fund as of December 31, 2014 and 2013 is as follows:

	2014			
	Unrestricted Net Position	Restricted Net Position	Restricted, Nonspendable Net Position	Total
Funds functioning as endowment	$ 290,000	$ -	$ -	$ 290,000
Donor-restricted endowment	-	104,581	139,236	243,817
	$ 290,000	$ 104,581	$ 139,236	$ 533,817

	2013			
	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

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, deficiencies of this nature would be reported as unrestricted net assets. There are no deficiencies of this nature as of December 31, 2014 and 2013.

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.

Medicare and Medicaid Electronic Health Records 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 years ended December 31, 2014 and 2013, the Hospital recognized approximately $485,000 and $1,300,000, respectively, 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 recognizes 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.

Note 11. Net Patient Service Revenue (Continued)

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 2014 and 2013, approximately 50% and 51%, respectively, of the Hospital's total net patient revenue was derived from Medicare payments while 7% and 6%, respectively, 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 statements of revenues, expenses and changes in net position in the year of settlement. The Hospital recorded unfavorable adjustments of $392,265 in 2014 and a favorable adjustment of $362,049 in 2013 due to prior year retroactive adjustments to amounts previously estimated and other changes in estimates.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Gross patient service revenue	$ 84,151,314	$ 75,386,124
Less third-party contractual allowances	46,877,251	37,545,629
Less provision for bad debts	3,392,130	3,786,487
Net patient service revenue	$ 33,881,933	$ 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 (vested) member and employee contributions plus any investment earnings. OPERS provides retirement, disability, survivor, and post employment healthcare benefits, to the Traditional Pension and Combined Plan members. Participants in the Member-Directed Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefits to the OPERS Board of Trustees. 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 the statutory authority for employee and employer contributions. For the years ended December 31, 2014, 2013, and 2012, the employee contribution rate was 10.0% of covered payroll and the Hospital was required to contribute 14.0% of covered payroll. For 2014, member and employee contribution rates were consistent across all three plans. The Hospital's contributions to OPERS for the years ended December 31, 2014, 2013, and 2012 were $1,760,205, $1,760,995 and $1,963,571, respectively, equal to the required contribution for each year.

Note 12. Benefit Plans (Continued)

Post-retirement 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. OPERS' eligibility requirements for post-employment healthcare coverage changed for those retiring on and after January 1, 2015. Details of the changes are available in the Plan Statement in the OPERS 2013 CAFR.

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

OPERS issues a stand-alone financial report. A copy may be obtained by visiting https://www.opers.org/investments/cafr.shtml, or by writing OPERS at 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provided the statutory authority requiring public employers to fund post retirement 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 benefits.

The employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, the employer contribution was 14.0% of earnable salary. The Ohio Revised Code limits the employer contribution to a rate not to exceed 14.0% of earnable salary. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment HealthCare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to healthcare for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the healthcare provided. Payment amounts vary depending on the coverage selected and the number of covered dependents. The Hospital's contributions for 2014, 2013, and 2012 used to fund post-retirement healthcare benefits were $246,539, $503,116 and $560,992, respectively, which are included in the Hospital's contractually required contribution of $1,760,205, $1,760,995 and $1,963,571 for the years ended December 31, 2014, 2013 and 2012, respectively.

Changes to the healthcare 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 4.0% of the employer contributions toward the healthcare fund after the end of the transition period.

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. The Hospital received support from the Foundation in the amount of $127,585 and $150,000 in 2014 and 2013, respectively, which is recorded as capital grants and contributions on the statements 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:

2015	$	75,075
2016		75,075
2017		75,075
2018		56,306
Total future minimum lease payments	$	281,531

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 criteria, control and economic interest, that would require consolidation.

During the years ended December 31, 2014 and 2013, the Hospital disbursed funds totaling $1,916,000 and $1,826,000 on behalf of HVMG to fund operating deficits, respectively. 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, 2014 and 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 years ended December 31, 2014 and 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.

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.

Supplementary Information

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

Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	**$ 304,411**	$ 600,057
Patient accounts receivable, net of estimated, uncollectibles		
of $1,389,000 in 2014 and $1,073,000 in 2013	**4,883,748**	4,468,632
Certificates of deposit	**252,548**	35,037
Investments	**469,544**	463,545
Inventories	**436,372**	328,084
Deposits with South Central Ohio Insurance Consortium	**454,939**	-
Prepaid expenses and other assets	**2,218,541**	1,052,104
Total current assets	**9,020,103**	6,947,459
Noncurrent Assets:		
Certificates of deposit	**-**	217,821
Total noncurrent assets	**-**	217,821
Capital Assets		
Land and construction in progress	**445,580**	626,580
Buildings, land improvements and equipment, net	**10,279,565**	10,423,779
Capital assets, net	**10,725,145**	11,050,359
Total assets	**$ 19,745,248**	$ 18,215,639

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

Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Liabilities and Net Position		
Current Liabilities		
Line of credit	**$ 396,000**	$ -
Current portion of capital lease obligations	**393,820**	440,116
Current portion of long-term debt	**402,620**	450,000
Accounts payable and accrued expenses	**3,408,384**	2,046,594
Accrued payroll and related liabilities	**1,038,489**	1,149,303
Self-insurance liabilities	**330,923**	293,298
Estimated amounts due to third-party payors	**18,116**	-
Current portion of accrued vacation and sick leave	**414,453**	330,411
Total current liabilities	**6,402,805**	4,709,722
Noncurrent Liabilities, net of current portions		
Accrued vacation and sick leave	**565,621**	591,593
Capital lease obligations	**678,459**	734,553
Long-term debt	**805,609**	1,060,847
Total noncurrent liabilities	**2,049,689**	2,386,993
Total liabilities	**8,452,494**	7,096,715
Net Position		
Net investment in capital assets	**8,444,637**	8,364,843
Unrestricted	**2,848,117**	2,754,081
Total net position	**$ 11,292,754**	$ 11,118,924

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, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue	**$ 33,881,933**	$ 34,054,008
Other operating revenue	**573,239**	404,067
Total operating revenues	**34,455,172**	34,458,075
Operating Expenses		
Salaries and wages	**13,253,618**	12,919,174
Employee benefits	**5,602,518**	5,537,168
Supplies and other expenses	**7,253,516**	6,378,207
Professional fees and services	**4,843,622**	4,677,136
Depreciation and amortization	**1,557,725**	1,409,062
Insurance	**138,790**	159,456
Total operating expenses	**32,649,789**	31,080,203
Operating income	**1,805,383**	3,377,872
Nonoperating Revenues (Expenses)		
Grants to Hocking Valley Community Hospital Memorial Fund, Inc.	**(1,916,000)**	(1,826,000)
Net investment income	**15,565**	9,757
Interest expense	**(163,488)**	(148,486)
Loss on sale of capital assets	**-**	(16,726)
Noncapital grants and contributions	**304,785**	393,384
Total nonoperating revenues (expenses)	**(1,759,138)**	(1,588,071)
Excess of revenues over expenses before capital grants and contributions	**46,245**	1,789,801
Capital grants and contributions	**127,585**	150,000
Increase in net position	**173,830**	1,939,801
Net position, beginning of year	**11,118,924**	9,179,123
Net position, end of year	**$ 11,292,754**	$ 11,118,924

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

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from patients and third party payors	**$ 33,484,933**	$ 33,834,470
Cash paid to employees for wages and benefits	**(18,871,255)**	(18,826,593)
Cash paid to vendors for goods and services	**(12,603,802)**	(11,909,432)
Other receipts	**573,239**	404,067
Net cash provided by operating activities	**2,583,115**	3,502,512
Cash Flows From Noncapital Financing Activities		
Contributions	**304,785**	393,384
Borrowings on line of credit	**400,000**	-
Payments on line of credit	**(4,000)**	(300,000)
Funding to Hocking Valley Community Hospital Memorial Fund, Inc.	**(1,916,000)**	(1,826,000)
Net cash used in noncapital financing activities	**(1,215,215)**	(1,732,616)
Cash Flows From Capital and Related Financing Activities		
Repayment of long-term debt	**(305,017)**	(210,000)
Repayment of capital lease obligations	**(600,733)**	(534,693)
Interest paid on long-term debt	**(161,089)**	(143,681)
Purchase of capital assets	**(734,168)**	(786,434)
Proceeds from the sale of capital assets	**-**	4,500
Capital grants and contributions	**127,585**	150,000
Net cash used in capital and related financing activities	**(1,673,422)**	(1,520,308)
Cash Flows From Investing Activities		
Investment income	**15,565**	9,757
Proceeds from for investment sales and maturities	**211,822**	-
Payments for investment purchases and reinvestments	**(217,511)**	(330,389)
Net cash provided by (used in) investing activities	**9,876**	(320,632)
Net decrease in cash and cash equivalents	**(295,646)**	(71,044)
Cash and cash equivalents		
Beginning	**600,057**	671,101
Ending	**$ 304,411**	$ 600,057

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	**$ 1,805,383**	$ 3,377,872
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**1,557,725**	1,409,062
Provision for bad debts	**3,392,130**	3,786,487
Changes in:		
Patient accounts receivable	**(3,807,246)**	(3,643,976)
Inventories, prepaid expenses and other assets	**(1,729,664)**	(589,664)
Accounts payable and accrued expenses	**1,361,790**	(104,969)
Accrued payroll and related liabilities	**(110,814)**	(38,288)
Self-insurance liabilities	**37,625**	(37,079)
Estimated amounts due to third-party payors	**18,116**	(362,049)
Accrued vacation and sick leave	**58,070**	(294,884)
Net cash provided by operating activities	**$ 2,583,115**	$ 3,502,512
Supplemental Disclosure of Noncash Capital Financing Activities:		
Assets acquired under capital lease obligations	**$ 498,343**	$ 575,868
Assets acquired through issuance of debt	**$ -**	$ 170,000

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, 2014, 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 30, 2015.

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 opinions 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 30, 2015

Hocking Valley Community Hospital Memorial Fund, Inc.
(A Component Unit of Hocking Valley Community Hospital)

Report to the Board of Trustees
April 30, 2015

Assurance ▪ Tax ▪ Consulting

McGladrey

April 30, 2015

Board of Trustees
Hocking Valley Community Hospital Memorial Fund, Inc.

We are pleased to present this report related to our audit of the financial statements of Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation) for the year ended December 31, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Foundation's financial reporting process.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Foundation.

McGladrey LLP

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated October 31, 2014. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Foundation. The Foundation did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Area	Comments
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Foundation, including the representation letter provided to us by management, are attached as Exhibit A.

Hocking Valley Community Hospital Memorial Fund, Inc.
Summary of Significant Accounting Estimates
Year Ended December 31, 2014

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Foundation's December 31, 2014, financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Investments	The fair value of the investments was determined monthly and the investments were stated at fair value based on quoted market prices.	The Foundation adjusts its investments to fair value monthly based on fair values that were provided by a third party that held the investments in safekeeping.	As it relates to the fair value of the investments we tested the propriety of the information provided by a third party and found it to be consistent with fair values we obtained from another third party source. Based on the testing performed, we believe the fair values appear reasonable.

Exhibit A—Significant Written Communications between Management and Our Firm

HOCKING VALLEY
COMMUNITY HOSPITAL

April 30, 2015

McGladrey LLP
1001 Lakeside Avenue East, Suite 200
Cleveland, Ohio 44114

This representation letter is provided in connection with your audits of the financial statements of Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation) as of and for the years ended December 31, 2014 and 2013, whose financial activity is included in the audited financial report of Hocking Valley Community Hospital, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated October 31, 2014 for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We are aware of no uncorrected misstatements.
9. Net assets are appropriately classified and reported.

Information Provided

10. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of trustees and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of risk that the financial statements are not materially misstated as a result of fraud.
13. We have no knowledge of allegations of fraud or suspected fraud, affecting the Foundation's financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Foundation's financial statements received in communications from employees, former employees, analysts, regulators, or others.
15. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
16. We not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
17. We have disclosed to you the identity of the Foundation's related parties and all the related-party relationships and transactions of which we are aware.
18. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Foundation's ability to record, process, summarize, and report financial data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on the consolidated financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Hocking Valley Community Hospital Memorial Fund, Inc.

Kathy Krumlauf

Kathy Krumlauf, Director

Julie Grow, Chief Financial Officer

McGladrey

Board of Trustees
Hocking Valley Community Hospital Memorial Fund, Inc.

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation), for the year ended December 31, 2014. The following item is offered as a constructive suggestion to be considered part of the ongoing process of modifying and improving the Foundation's practices and procedures.

Enhancement of policy and procedures: Per review of the Foundation's most recently filed Federal Form 990, we noted the Foundation disclosed that it does not have a written conflict of interest policy, whistleblower policy nor written document retention and destruction policy. In an effort to enhance existing policies and procedures for the Foundation, we recommend design and implementation of those policies.

Management response: The Foundation has always followed the same policies and procedures as the Hospital, however in this case, formal, written policies for conflict of interest, whistleblowing and document retention do not exist. The Foundation will adopt specific policies regarding these issues that reflect that of the Hospital.

This Foundation's response to the recommendation described above was not subjected to the auditing procedures applied on our audit of the financial statements, and accordingly, we express no opinion on it.

This letter is intended solely for the information and use of management, the Board of Trustees, and others within the Foundation and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate serving Hocking Valley Community Hospital Memorial Fund, Inc. and would be happy to assist you in addressing and implementing the suggestion in this letter.

McGladrey LLP

April 30, 2015

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 30, 2015

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