HOCKING VALLEY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Auditor of State
Betty Montgomery

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

We have reviewed the *Report of Independent Auditors* of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., LLC, for the audit period January 1, 2004 through December 31, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 6, 2005

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HOCKING VALLEY COMMUNITY HOSPITAL

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Blue & Co., LLC
Business Consultants Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL
Logan, Ohio

We have audited the accompanying balance sheets of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of December 31, 2004 and 2003, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hocking Valley Community Hospital as of December 31, 2004 and 2003, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 1, 2005, on our consideration of Hocking Valley Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when considering the results of our audit.

Blue & Co., LLC

April 1, 2005

The discussion and analysis of Hocking Valley Community Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with an $426 or 4.5% increase in 2004.
- The Hospital reported operating gains $227 and $624 in 2004 and 2003, respectively.
- Total revenues increased from 2003 to 2004 by $2,550 or 11.0%.

Using This Annual Report

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

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

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

These two statements report the Hospital's net assets and related changes. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

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

Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net assets increased by $426 or 4.5% in 2004 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2004	2003	$ Change	% Change
Assets				
Current assets	6,475	6,246	229	3.6%
Capital assets, net	9,891	10,480	(589)	-5.6%
Restricted and limited use assets	330	330	0	0.0%
Other noncurrent assets	512	251	261	100.3%
Total assets	17,208	17,307	(99)	-.6%
Liabilities				
Long - term obligations	3,622	4,333	(711)	-16.4%
Current liabilities	3,658	3,472	186	5.3%
Total liabilities	7,280	7,805	(525)	-6.7%
Net assets				
Unrestricted	4,056	3,857	(199)	5.2%
Invested in capital assets, net of related debt	5,542	5,315	227	4.2%
Restricted by bond indenture agreement	330	330	0	0.0%
Total net assets	9,928	9,502	426	4.5%

A significant component of the change in the Hospital's assets is the decrease in capital assets net of depreciation. Capital assets net of depreciation decreased 5.6% or $589 from 2003 to 2004. During 2004, the Hospital purchased capital assets of $555 offset by depreciation of $1,143. The Hospital also paid down on its long-term debt by $816 in 2004.

Operating Results and Changes in the Hospital's Net Assets

In 2004, the Hospital's net assets increased by $426 or 4.5%, as shown in Table 2. This increase is made up of different components.

Table 2: Operating Results and Changes in Net Assets

	2004	2003	$ Change	% Change
Revenue:				
Net patient service revenue	25,616	23,079	2,537	11.0%
Other	127	114	13	11.4%
Total operating revenue	25,743	23,193	2,550	11.0%
Expenses:				
Salaries and wages	9,664	9,325	339	3.6%
Employee benefits	3,204	2,436	768	31.5%
Supplies and other	6,595	5,181	1,414	27.2%
Professional fees and services	4,634	4,367	267	6.1%
Depreciation and amortization	1,144	1,032	112	10.8%
Insurance	275	228	47	20.6%
Total expenses	25,516	22,569	2,947	13.1%
Operating income	227	624	-397	-63.4%
Non operating gains (losses)	199	-120	319	265.8%
Revenue and gains over expenses	426	504	-78	-15.5%
Net assets: beginning of year	9,502	8,998	504	5.6%
Net assets: end of year	9,928	9,502	426	4.5%

Sources of Revenue

During 2004 the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of Gross revenue for patient services by payer, for the years ended December 31, 2004 and 2003, respectively.

	2004	2003
Payer Mix		
Medicare	45%	44%
Medicaid	16%	16%
Self-Pay	6%	5%
Commercial and other	33%	35%
	100%	100%

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

Operating Gains

The first component of the overall change in the Hospital's net assets is its operating income gain, generally the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. Operating Gains in 2004 decreased by $397 or 63.4% from 2003.

The increase in the Hospital's total operating revenue in 2004 of $2,550 or 11.0% from 2003 is the result of a rate and volume increase. During 2004, the Hospital increased gross charge rates 4% compared to 2003. More importantly, the Hospital experienced real statistical growth in patient volume and procedures. 2004 statistics are as follows:

Statistics	2004	2003	% Growth
Med / surgical patient days	3,743	3,845	-2.7%
Cardiovascular services	5,108	5,491	-7.0%
Laboratory	207,922	121,453	71.1%
Pharmacy	416,196	384,879	8.1%
Operating room	3,093	2,638	17.2%
Radiology	29,450	25,334	16.2%
Anesthesia	973	918	6.0%

Excluded from net patient service revenue are charges for patient service waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $824 were waived during 2004.

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 established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

Non-operating Income (Expenses)

Non operating gains (losses) are the result of changes in the Hospital's investment gain (loss) and donations. The Hospital's investment income increased due to favorable changes in market values during 2004. The Hospital's investment income resulted in a gain of $304 in 2004 versus a gain of $144 in 2003. The Hospital received contributions in 2004 of approximately $158 versus $39 in 2003. The Hospital also incurred interest expense of $263 and $304 during 2004 and 2003 respectively.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating gains and non-operating income and expenses as discussed earlier. Non cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net assets. The Hospital utilized cash in excess of amounts received from operating activities for capital and related financing activities in 2004.

Capital Asset and Debt Administration

Capital assets

At the end of 2004, the Hospital had $5,542 invested in capital assets, net of accumulated depreciation, as detailed in the financial statements. The Hospital acquired or constructed capital assets in the amount of $555 and $641 during 2004 and 2003, respectively.

Debt

At year-end, the Hospital had $4,349 in bonds and capital lease obligations outstanding. In 2004, the Hospital entered into a capital lease obligation of $31.

Contacting the Hospital's Financial Management

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

HOCKING VALLEY COMMUNITY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS

	2004	2003
Current assets		
Cash and cash equivalents	$ 601,101	$ 1,076,416
Short-term investments	187,339	181,853
Patient accounts receivable, less allowance for doubtful accounts of $249,000 in 2004 and $148,000 in 2003	5,457,634	4,769,050
Inventories	212,131	202,688
Prepaid expenses and other assets	16,490	16,490
Total current assets	6,474,695	6,246,497
Asset whose use is limited		
Under bond indenture agreement	330,000	330,000
Property, plant and equipment, net	9,890,999	10,479,814
Other assets		
Long-term investments	433,524	165,908
Deferred financing costs, net	78,465	85,429
Total other assets	511,989	251,337
Total assets	$ 17,207,683	$ 17,307,648

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

LIABILITIES AND NET ASSETS

	2004	2003
Current liabilities		
Current portion of capital lease obligations	$ 387,882	$ 507,651
Current portion of long-term debt	338,500	323,500
Accounts payable and accrued expenses	1,470,533	878,149
Accrued salaries, wages and employee benefits	1,368,788	1,705,102
Third-party settlements	91,565	57,532
Total current liabilities	3,657,268	3,471,934
Capital lease obligations, less current portion	479,942	857,380
Long-term debt, less current portion	3,142,383	3,476,112
Total liabilities	7,279,593	7,805,426
Net assets		
Unrestricted	4,055,798	3,857,051
Invested in capital assets, net of related debt	5,542,292	5,315,171
Restricted by bond indenture agreement	330,000	330,000
	9,928,090	9,502,222
Total liabilities and net assets	$ 17,207,683	$ 17,307,648

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenues		
Net patient service revenue	$ 25,616,182	$ 23,078,812
Other operating income	127,207	114,663
Total operating revenues	25,743,389	23,193,475
Operating expenses		
Salaries and wages	9,664,642	9,324,700
Employee benefits	3,204,111	2,436,158
Supplies and other	6,595,041	5,180,577
Professional fees and services	4,633,859	4,367,850
Depreciation and amortization	1,143,891	1,032,030
Insurance	274,977	227,838
Total expenses	25,516,521	22,569,153
Operating income	226,868	624,322
Nonoperating gains (losses)		
Investment income (losses)	303,876	144,395
Interest expense	(262,982)	(303,637)
Other	158,106	38,766
Total nonoperating gains (losses)	199,000	(120,476)
Revenues and gains over expenses	425,868	503,846
Net assets, beginning of year	9,502,222	8,998,376
Net assets, end of year	$ 9,928,090	$ 9,502,222

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating activities		
Cash received for patients and third party payors	$ 24,961,631	$ 22,614,468
Cash paid to employees for wages and benefits	(12,612,683)	(11,785,278)
Cash paid to vendors for goods and services	(11,513,320)	(10,240,228)
Other receipts, net	127,207	114,663
Net cash from operating activities	962,835	703,625
Capital and related financing activities		
Repayment of long-term debt	(318,729)	(305,243)
Repayment of capital lease obligations	(528,647)	(499,854)
Issuance of long-term debt	-	285,000
Interest expense	(262,982)	(303,637)
Acquisition of property and equipment	(516,672)	(641,061)
Contributions	158,106	38,267
Net cash from capital and related financing activities	(1,468,924)	(1,426,528)
Investing activities		
Change in investments, net	(273,102)	(99,251)
Investment income	303,876	144,395
Other receivables	-	3,346
Net cash from investing activities	30,774	48,490
Net change in cash and cash equivalents	(475,315)	(674,413)
Cash and cash equivalents		
Beginning of year	1,076,416	1,750,829
End of year	$ 601,101	$ 1,076,416
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 226,868	$ 624,322
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	1,143,891	1,032,030
Bad debts	2,152,551	1,782,835
Changes in assets and liabilities		
Patient accounts receivable	(2,841,135)	(2,148,075)
Inventories, prepaid expenses and other assets	(9,443)	37,186
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	256,070	(525,569)
Third-party settlements	34,033	(99,104)
Net cash from operating activities	$ 962,835	$ 703,625

Supplemental disclosure of cash flow information

The Hospital entered into capital lease obligations in 2004 of $31,440 and in 2003 at $887,267

See accompanying notes to financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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, which began operations in 1966, has a 61 bed acute care unit, a 30 bed skilled nursing unit and a 10 bed geriatric psychiatric unit. The Hospital is considered a component unit of Hocking County, Ohio and is included as a component unit in the general-purpose financial statements of Hocking County.

Enterprise fund accounting

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was $823,672 and $530,271 in 2004 and 2003, respectively.

Net Patient Service Revenue and Patient Accounts Receivable

Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. In 2004 and 2003, approximately 45% and 44%, respectively, of the Hospital's total patient revenue was derived from Medicare payments while 16% was derived from Medicaid.

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

Investments

The Hospital's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds and money market funds. Marketable equity securities owned by the Hospital were received through donations. The portfolio is carried at fair value.

Assets Whose Use is Limited

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are reported on the basis of cost, except for donated items, which are recorded at fair value at the date of the donation. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment.

Deferred Financing Costs

Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2004 and 2003, was $36,047 and $29,083, respectively.

Cash and Cash Equivalents

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

Statements of operations and changes in net assets

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

Compensated absences

Compensated absences are accrued when incurred utilizing the termination method.

Risk Management

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

Net assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted by bond indenture agreement are assets that are set aside for bond repayment purposes, as specified by creditors of the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Reclassifications

Certain reclassifications were made to the 2003 financial statements to conform to the 2004 presentation.

2. 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. 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:

- Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors; and

- Certain other costs applicable to the Medicare and Medicaid programs are paid under a cost reimbursement methodology. As a result, final payment for these services will be determined after submission of the Hospital's cost reports and audits by the third-party payors.

  Effective August 1, 2000, Medicare initiated the Outpatient Prospective Payment System, whereby most outpatient services will be paid on a prospective basis. There are certain provisions that allow for transitional payments through 2004 if payment under the prospective method falls below what would have been paid on the cost method. Differences between the total program billed charges and the interim payments are reflected as deductions from revenues.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2004 and 2003, are as follows:

	2004	2003
Gross patient service revenue	$ 46,965,569	$ 40,786,183
Less third-party allowances	19,196,836	15,924,536
Less bad debts	2,152,551	1,782,835
Net patient service revenue	$ 25,616,182	$ 23,078,812

3. DEPOSITS AND INVESTMENTS

The classification of cash and cash equivalents, assets whose use is limited and investments in the financial statements differ from criteria set forth in GASB Statement No. 3 “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements”. A reconciliation between the general fund classifications of cash and cash equivalents, assets whose use is limited and investments in the financial statements and the classifications of deposits and investments per GASB Statement No. 3 is as follows:

	December 31, 2004		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 601,101	$ 330,000	$ 620,863
Government securities	-	-	(14,040)
Mutual funds and equities	-	-	(419,484)
Star Ohio	(90,472)	-	-
Merrill Lynch cash management	(64,554)	-	-
Advest money market	(146,014)	-	-
Cash on hand	(750)	-	-
GASB Statement No. 3 deposits	$ 299,311	$ 330,000	$ 187,339

	December 31, 2003		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 1,076,416	$ 330,000	$ 347,761
Government securities	-	-	(20,722)
Mutual funds and equities	-	-	(145,820)
Star Ohio	(75,199)	-	-
Merrill Lynch cash management	(157,146)	-	-
Advest money market	(294,853)	-	-
Cash on hand	(750)	-	-
GASB Statement No. 3 deposits	$ 548,468	$ 330,000	$ 181,219

Deposits

At December 31, 2004 and 2003, the carrying amount of the Hospital's bank deposits for all funds is $601,101 and $1,076,416 as compared to a bank balance of $870,228 and $1,514,286, respectively. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances, at December 31, 2004 and 2003, $210,000 is covered by Federal insurance programs and $660,228 and $1,304,286, respectively, is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments

The Hospital's investments for GASB Statement 3 purposes are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the Hospital or its agent in the Hospital's name.

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the Hospital's name.

	December 31, 2004			
	Category			Carrying
	1	2	3	Amount
Government securities	$ -	$ -	$ 14,040	$ 14,040
Certificates of deposit	-	514,345	-	514,345
Mututal funds and equities	-	-	419,484	419,484
Total	$ -	$ 514,345	$ 433,524	$ 947,869

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	12/31/2003	Additions	Retirements/ Transfers	12/31/2004
Land improvements	$ 278,495	$ 3,700	$ -	$ 282,195
Buildings and improvements	12,084,587	253,780	-	12,338,367
Equipment	11,366,478	290,632	-	11,657,110
Total capital assets	23,729,560	548,112	-	24,277,672
Less accumulated depreciation				
Land improvements	194,483	15,191	-	209,674
Buildings and improvements	3,989,191	340,631	-	4,329,822
Equipment	9,066,072	781,105	-	9,847,177
Total accumulated depreciation	13,249,746	1,136,927	-	14,386,673
Capital assets, net	$ 10,479,814	$ (588,815)	$ -	$ 9,890,999

	12/31/2002	Additions	Retirements/ Transfers	12/31/2003
Land improvements	$ 263,008	$ 15,487	$ -	$ 278,495
Buildings and improvements	11,664,647	419,940	-	12,084,587
Equipment	10,273,577	1,092,901	-	11,366,478
Total capital assets	22,201,232	1,528,328	-	23,729,560
Less accumulated depreciation				
Land improvements	176,042	18,441	-	194,483
Buildings and improvements	3,665,339	323,852	-	3,989,191
Equipment	8,380,743	685,329	-	9,066,072
Total accumulated depreciation	12,222,124	1,027,622	-	13,249,746
Capital assets, net	$ 9,979,108	$ 500,706	$ -	$ 10,479,814

5. MEDICARE AND MEDICAID THIRD-PARTY SETTLEMENTS

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2002 and with Medicaid through 1999. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2004 and 2003, which Hospital management believes will approximate final settlements after audit by the respective agencies.

6. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2004 and 2003:

- 1993 County Hospital Refunding and Improvement Bonds, Serial Bonds, rates ranging from 3.95% to 4.8%, principal each December 1 through 2003, ranging from $150,000 to $185,000, with interest due each June 1 and December 1.

- 1993 County Hospital Refunding and Improvement Bonds, Term Bonds, 5.35% due December 1, 2008, mandatory annual redemption beginning December 1, 2004, in installments ranging from $195,000 to $235,000 plus interest.

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

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

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

- Note payable, bi-annual payments of $14,250 due and payable each June and December through 2009. Collateralized by related building.

	12/31/2003	Additions	Payments	12/31/2004	Amount due within 1 year
1993 bonds, issued July 1, 1993	$ 1,365,000	$ -	$ 195,000	$ 1,170,000	$ 205,000
1999 bonds, issued March 1, 1999	2,240,000	-	100,000	$ 2,140,000	105,000
Bond discount	(61,888)	-	4,772	$ (57,116)	-
Note payable, December 2003	256,500	-	28,500	$ 228,000	28,500
Capital leases	1,365,031	31,440	528,648	$ 867,823	387,882
	$ 5,164,643	$ 31,440	$ 856,920	$ 4,348,707	$ 726,382

	12/31/2002	Additions	Payments	12/31/2003	Amount due within 1 year
1993 bonds, issued July 1, 1993	$ 1,550,000	$ -	$ 185,000	$ 1,365,000	$ 195,000
1999 bonds, issued March 1, 1999	2,335,000	-	95,000	2,240,000	100,000
Bond discount	(65,145)	-	(3,257)	(61,888)	-
Note payable, December 2003	-	285,000	28,500	256,500	28,500
Capital leases	977,618	887,267	499,854	1,365,031	507,651
	$ 4,797,473	$ 1,172,267	$ 805,097	$ 5,164,643	$ 831,151

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

The Hospital leases equipment under capital lease agreements, which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from approximately 6.3% to 12.2%. They expire at various dates through March 2006 and are collateralized by the equipment leased.

	December 31	
	2004	2003
Cost of equipment under capital lease	$ 3,477,000	$ 3,445,560
Accumulated amoritzation	2,472,080	1,943,432
Net carrying amount	$ 1,004,920	$ 1,502,128

Minimum payments on these obligations to maturity as of December 31, 2004 follows:

December 31,	Principal	Interest	Total
2005	$ 726,382	$ 191,220	$ 917,602
2006	591,648	160,814	752,462
2007	569,259	135,605	704,864
2008	419,535	112,194	531,729
2009	284,000	127,958	411,958
2009-2013	790,000	258,780	1,048,780
2014-2018	835,000	168,150	1,003,150
2019-2023	132,883	9,026	141,909
	$ 4,348,707	$ 1,163,747	$ 5,512,454

7. PENSION PLAN

All Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6705 or (800) 222-PERS (7377).

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2004	$ 1,244,705
2003	1,186,566
2002	1,106,423

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2004 and 2003 employer contribution rates of 13.55% used to fund healthcare was 4.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

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

8. DEFERRED COMPENSATION

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

9. PROFESSIONAL LIABILITY INSURANCE

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

10. RELATED PARTIES

The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) was organized as a separate not-for-profit membership corporation. The purpose of the Foundation is to solicit gifts for the benefit of the Hospital. The Board of Directors of the Foundation is elected by the Foundation's members. The accompanying financial statements do not include the assets, obligations, revenues or expenses of the Foundation.

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

Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2004 and 2003, the sole shareholder of HVMG has entered into an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements do not include the assets, obligations, revenues or expenses of HVMG. During 2003 the Hospital transferred $493,020 to HVMG. These transfers are reflected in the changes in fund balance.

10. RELATED PARTIES

The Hospital entered into a 10 year non-cancelable lease with the Foundation for the Medical Arts Building. 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 follows:

2005	75,075
2006	75,075
2007	75,075
2008	75,075
2009	56,306
Total minimum lease payments	$ 356,606

Blue & Co., LLC
Business Consultants Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Hocking Valley Community Hospital, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 1, 2005. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Hocking Valley Community Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financials reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Hocking Valley Community Hospital in a separate letter dated April 1, 2005.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Hocking Valley Community Hospital's financial statements are free of material misstatement, we performed tests of it 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.*

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

Blue & Co., LLC

April 1, 2005

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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
AUGUST 04, 2005