HOCKING VALLEY COMMUNITY HOSPITAL

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

Financial and Compliance Report

December 31, 2008

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

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report on the Financial Statements* of the Hocking Valley Community Hospital, Hocking County, prepared by Arnett & Foster PLLC, for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hocking Valley Community Hospital is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 13, 2009

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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

We have audited the accompanying balance sheets of Hocking Valley Community Hospital (the Hospital) a component unit of Hocking County, Ohio, as of December 31, 2008 and 2007, 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.

The financial statements of the Hospital do not include financial data for the Hocking Valley Community Hospital Memorial Fund, Inc., which is a legally separate component unit of the Hospital. Accounting principles generally accepted in the United States of America require the financial data for this component unit be reported with the financial data of the Hospital. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of this discretely presented component unit as of and for the year ended December 31, 2008, would have been presented as $1,584,669; $59,360; $1,525,309; $152,527; and $161,100, respectively. Additionally, because of this departure, the assets, liabilities, net assets, revenues and expenses of this discretely presented component unit as of and for the year ended December 31, 2007, would have been presented as $1,615,373; $84,638; $1,530,735; $258,218; and $188,621, respectively.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the Hocking Valley Community Hospital, as of December 31, 2008 and 2007, or the changes in financial position or cash flows thereof for the years then ended.

In addition, the financial statements referred to above present fairly, in all material respects, the financial position of Hocking Valley Community Hospital as of December 31, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2009, on our consideration of Hocking Valley Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the years ended December 31, 2008. We issued a similar report for the year ended December 31, 2007, dated May 21, 2008, which has not been included with the 2008 financial and compliance report. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Charleston, West Virginia
April 29, 2009

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Hocking Valley Community Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements, which begin on page 7. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets decreased in 2008 by $442 or 3.8% and increased by $386, or 3.4% in 2007.
- The Hospital reported operating gains of $1,055 and $1,559 in 2008 and 2007, respectively.
- Total revenues increased from 2007 to 2008 by $1,933 or 6.5%.
- The Hospital expended $1,503 in 2008 and $1,515 in 2007 in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess (deficiency) of revenues over expenses of $(673) in 2008 and $168 in 2007.
- The Hospital made significant capital additions in 2008 totaling $1,407 of which $930 was funded from operations and $477 was financed through capital leases.

Using This Annual Report

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

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

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

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

Statement of Cash Flows

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

Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 7. The Hospital's net assets decreased by $442 or 3.8% in 2008 and increased by $386 or 3.4% in 2007, as you can see from Table 1.

HOCKING VALLEY COMMUNITY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 1: Assets, Liabilities, and Net Assets

	2008	2007	2006
Assets			
Current assets	**$ 6,592**	$ 7,189	$ 7,747
Capital assets, net	**12,651**	13,011	9,405
Restricted and limited use assets	**330**	330	330
Other noncurrent assets	**185**	227	65
Total assets	**$ 19,758**	$ 20,757	$ 17,547
Liabilities			
Long-term obligations	**$ 3,395**	$ 4,069	$ 2,616
Current liabilities	**5,063**	4,946	3,575
Total liabilities	**$ 8,458**	$ 9,015	$ 6,191
Net assets			
Unrestricted	**$ 2,769**	$ 3,521	$ 4,897
Invested in capital assets, net of related debt	**8,201**	7,891	6,129
Restricted	**330**	330	330
Total net assets	**$ 11,300**	$ 11,742	$ 11,356

A significant component of the Hospital's assets are capital assets. Capital assets decreased by $360 or 2.8% in 2008 and increased by $3,641 or 38.8% in 2007. Fixed assets acquired by the Hospital either through direct purchase or capital lease were $4,982 in 2007 and $1,407 in 2008. These additions were offset by depreciation of $1,767 and $1,376 in 2008 and 2007, respectively. The reduction in assets from 2007 to 2008 reflect the use of assets to reduce long-term debt, and the decrease in net assets.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the change in revenues and expenses for 2008, 2007 and 2006.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Revenue:			
Net patient service revenue	**$ 31,213**	$ 29,446	$ 27,318
Other	**268**	102	95
Total operating revenue	**$ 31,481**	$ 29,548	$ 27,413

HOCKING VALLEY COMMUNITY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

	2008	2007	2006
Expenses:			
Salaries and wages	**$ 13,681**	$ 12,783	$ 10,826
Employee benefits	**3,951**	3,701	3,288
Supplies and other	**7,157**	6,184	6,361
Professional fees and services	**3,565**	3,682	4,261
Depreciation and amortization	**1,819**	1,376	925
Insurance	**253**	263	253
Total expenses	**30,426**	27,989	25,914
Operating income	**1,055**	1,559	1,499
Nonoperating revenues (expenses) and capital grants and contributions	**(1,728)**	(1,391)	(894)
Revenue and gains over expenses	**$ (673)**	$ 168	$ 605

Salaries and wages grew by 7% in 2008 due to merit and inflationary increases which averaged 3.5% and the addition of a new service line in Radiology. HVCH also added FTEs to accommodate increased services and to comply with new Nurse staffing ratios. Supplies and other increased 15% due to increasing pharmaceutical costs, increased volume in the hospital pharmacy, and expanded orthopedic services along with increased costs for service and maintenance contracts related to the new pieces of capital equipment purchased during 2008. Depreciation and amortization increased 32% from 2007 due to depreciation on new pieces of capital equipment.

Salaries and wages grew by 7% in 2007 due to the Hospital's decision to cease the professional contract in its behavioral health unit and in turn employ that staff directly, the approved staff-wide wage increase of 4.3%, and increased clinical/medical services staffing to meet the increased patient demands, as reflected in the $5,700 increase in gross charges. Benefits increased 7% due to the increase in health insurance costs and associated PERS retirement expenses related to wages. Professional fees decreased 3% primarily due to termination of the behavioral health services contract. Depreciation and amortization increased 32% due to the associated growth in capital assets.

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 gross revenue for patient services by payer, for the years ended December 31, 2008, 2007 and 2006, respectively.

	2008	2007	2006
Medicare	**41%**	44%	36%
Medicaid	**18%**	19%	11%
Self-Pay	**7%**	6%	20%
Commercial and other	**34%**	31%	33%
	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. 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 were $1,055 and $1,599 in 2008 and 2007, respectively.

The increase in the Hospital's total operating revenue in 2008 of $1,933 or 7% from 2007 is the result of rate and volume increases. During 2008, the Hospital increased gross charge rates 3% compared to 2007. The increase in the Hospital's total operating revenue in 2007 of $769 or 3% from 2006 is the result of a rate increase. During 2007, the Hospital increased gross charge rates 3% compared to 2006. Excluded from net patient service revenue are charges for patient service waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, charges of $1,489 and $891 were waived during 2008 and 2007, respectively.

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

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

Nonoperating revenues (expenditures) and capital grants and contributions increased as the result of changes in the Hospital's funding to the Hocking Valley Medical Group, Inc., interest expense, investment gain (loss) and donations. The Hospital's investment income resulted in a gain of $64 and $301 in 2008 and 2007, respectively. The Hospital received noncapital contributions in 2008 of approximately $3 versus $49 in 2007.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating gains and non-operating gains and losses as discussed earlier. Non-cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net assets. The Hospital generated positive cash flows from operations in 2008 and 2007 of $2,260 and $2,178, respectively.

Capital Asset and Debt Administration

Capital assets

The Hospital had $12,651and $13,011 invested in capital assets, net of accumulated depreciation in 2008 and 2007, respectively. The Hospital acquired or constructed capital assets in the amount of $1,407 and $4,982 during 2008 and 2007, respectively.

Debt

The Hospital had $4,399 and $5,052 in bonds and capital lease obligations outstanding at December 31, 2008 and 2007, 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 Hospital Administration, 601 State Route 664, P.O. Box 966, Logan, OH 43138.

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

BALANCE SHEETS
December 31, 2008 and 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents	$ 1,610,081	$ 2,674,449
Patient accounts receivable, net of estimated uncollectibles of approximately $737,000, 2008; $1,026,000, 2007	4,620,184	4,209,319
Inventories	279,378	247,314
Prepaid expenses and other assets	82,351	57,976
Total current assets	6,591,994	7,189,058
Assets Limited as to Use		
Under bond indenture agreement	330,000	330,000
Capital assets, net	12,650,972	13,010,981
Other Assets		
Deferred financing costs, net	50,610	57,573
Intangible asset, net	123,361	158,607
Interest receivable	10,899	10,899
Total other assets	184,870	227,079
Total assets	$ 19,757,836	$ 20,757,118

LIABILITIES AND NET ASSETS	2008	2007
Current Liabilities		
Line-of-credit	$ 719,454	$ 477,000
Current portion of capital lease obligation	757,027	558,318
Current portion of long-term debt	247,125	425,163
Accounts payable and accrued expenses	1,350,967	1,188,908
Accrued salaries, wages and employee benefits	1,988,381	1,797,182
Estimated third-party payor settlements	-	500,000
Total current liabilities	5,062,954	4,946,571
Capital lease obligations, net of current portion	1,505,137	1,931,884
Long-Term Debt, net of current portion	1,889,771	2,136,896
Total liabilities	8,457,862	9,015,351
Net Assets		
Invested in capital assets, net of related debt	8,201,302	7,890,436
Restricted	330,000	330,000
Unrestricted	2,768,672	3,521,331
Total net assets	11,299,974	11,741,767
Total liabilities and net assets	$ 19,757,836	$ 20,757,118

HOCKING VALLEY COMMUNITY HOSPITAL
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STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2008 and 2007

	2008	2007
Revenues		
Net patient service revenue, net of provision for bad debts of $3,990,130, 2008 and $3,323,916, 2007	**$ 31,213,396**	$ 29,446,591
Other operating revenue	**267,880**	101,615
Total operating revenues	**31,481,276**	29,548,206
Operating expenses		
Salaries and wages	**13,680,608**	12,782,734
Employee benefits	**3,950,802**	3,701,163
Supplies and other expenses	**7,157,422**	6,184,391
Professional fees and services	**3,564,954**	3,682,453
Depreciation and amortization	**1,819,318**	1,375,950
Insurance	**252,998**	262,584
Total operating expenses	**30,426,102**	27,989,275
Operating income	**1,055,174**	1,558,931
Nonoperating revenues (expenses)		
Funding to Hocking Valley Medical Group, Inc.	**(1,502,602)**	(1,515,272)
Investment income	**64,450**	301,375
Interest expense	**(304,244)**	(231,644)
Gain on sale of fixed assets	**10,390**	5,473
Noncapital grants and contributions	**3,519**	49,181
Total nonoperating revenues (expenses)	**(1,728,487)**	(1,390,887)
Excess (deficiency) of revenues over expenses before capital grants and contributions	**(673,313)**	168,044
Capital grants and contributions	**231,520**	218,000
Increase (decrease) in net assets	**$ (441,793)**	$ 386,044
Net assets, beginning of year, as restated	**11,741,767**	11,355,723
Net assets, end of year	**$ 11,299,974**	$ 11,741,767

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Cash received from patients and third party payors	**$ 30,302,530**	$ 29,025,448
Cash paid to employees for wages and benefits	**(17,440,211)**	(16,337,864)
Cash paid to vendors for goods and services	**(10,876,718)**	(10,607,428)
Other receipts, net	**274,844**	97,680
Net cash provided by operating activities	**2,260,445**	2,177,836
Cash Flows from Noncapital Financing Activities:		
Contributions	**3,519**	49,181
Repayment of / borrowing under line-of-credit	**242,454**	477,000
Net cash provided by noncapital financing activities	**245,973**	526,181
Cash Flows from Capital and Related Financing Activities		
Repayment of long-term debt	**(425,164)**	(407,727)
Repayment of capital lease obligations	**(704,721)**	(432,132)
Interest paid on long-term debt	**(304,244)**	(231,644)
Purchase of capital assets	**(930,025)**	(2,330,646)
Capital grants and contributions	**231,520**	218,000
Net cash used in capital and related financing activities	**(2,132,634)**	(3,184,149)
Cash Flows from Investing Activities		
Investment income	**64,450**	301,375
Acquisition of Hocking Valley Imaging	**-**	(176,230)
Funding to Hocking Valley Medical Group	**(1,502,602)**	(1,515,272)
Net cash used in investing activities	**(1,438,152)**	(1,390,127)
Net decrease in cash and cash equivalents	**(1,064,368)**	(1,870,259)
Cash and cash equivalents, beginning of year	**2,674,449**	4,544,708
Cash and cash equivalents, end of year	**$ 1,610,081**	$ 2,674,449
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income (loss)	**$ 1,055,174**	$ 1,558,931
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**1,819,318**	1,375,950
Provision for bad debts	**3,990,130**	3,232,917
Changes in:		
Patient accounts receivable	**(4,389,101)**	(3,795,500)
Inventories, prepaid expenses and other assets	**(22,438)**	(9,171)
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	**307,362**	394,763
Estimated third-party settlements	**(500,000)**	(564,385)
Net cash provided by operating activities	**$ 2,260,445**	$ 2,193,505
Supplemental Disclosure of Noncash Financing Activities		
Assets acquired under capital lease obligations	**$ 476,684**	$ 2,651,636

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

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

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

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.

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.

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

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

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

Capital Assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their estimated fair value at the time of their donation. 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 asset 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

Amortization expense on capital leases is included in depreciation expense.

Deferred financing costs: Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2008 and 2007 was $63,903 and $56,939, respectively.

Costs of borrowings: Except for capital assets acquired through gifts, contributions on 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 either 2008 or 2007.

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

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

Compensated Absences: The Hospital's employees earn vacation time at varying rates depending on years of service. Employees may accumulate vacation time, up to a specified amount, to be carried over to the subsequent year. The estimated amount of vacation time payable for hours earned is reported as a current liability in 2008. The Hospital's employees also earn sick leave on an annual basis at a flat rate regardless of years of service. Accrued sick leave is paid out at termination at rates up to 12 percent of hours accrued at 50 percent of hourly rate, depending on years of service in accordance with the Ohio Revised Code. Accrued sick leave is paid out at 33 percent, with maximum payouts of 40 to 80 days depending on years of service, for retired employees with at least 10 years of service. The estimated amount of sick leave time payable for hours earned is reported as a current liability in 2008.

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; medical malpractice 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.

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.

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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.

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 2008, approximately 41% of the Hospital's total net patient revenue was derived from Medicare payments while 18% 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.

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 $1,488,541 in 2008 and $890,695 in 2007.

Operating revenues and expenses: The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Recent Accounting Standards: The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The adoption of GASB Statement No. 49 has not had a material impact on the financial statements of the Hospital as of and for the years ended December 31, 2008 and 2007.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Cash Equivalent Investments

Deposits

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At December 31, 2008, the carrying amount of the Hospital's bank deposits for all funds is $817,498 as compared to a bank balance of $874,390. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances at December 31, 2008, $264,552, is covered by Federal insurance programs and $609,838 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At December 31, 2008 and 2007, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

		Maturities	
December 31, 2008	Carrying Amount	Less than 1 Year	1 - 5 Years
Agency bonds	$ 9,521	$ -	$ 9,521
Certificate of deposit	535,329	535,329	-
Money Market Funds	577,733	577,733	-
	$ 1,122,583	$ 1,113,062	$ 9,521

		Maturities	
December 31, 2007	Carrying Amount	Less than 1 Year	1 - 5 Years
Agency bonds	$ 11,663	$ -	$ 11,442
Certificate of deposit	531,338	511,338	20,000
Money Market Funds	1,619,903	1,619,903	-
	$ 2,162,904	$ 2,131,241	$ 31,441

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

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

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments. At December 31, 2008 and 2007, the Hospital had 48% and 25%, respectively, of its investments invested in certificates of deposit at local banks.

HOCKING VALLEY COMMUNITY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS

Note 3. Accounts Receivable and Accounts Payable and Accrued Expenses

Patient accounts receivable and accounts payable and accrued expenses reported as current liabilities at December 31, 2008 and 2007 consisted of these amounts:

Patient Accounts Receivable	**2008**	2007
Receivable from patients and their insurance carriers	**$ 4,403,101**	$ 4,367,973
Receivable from Medicare	**2,686,481**	2,293,292
Receivable from Medicaid	**1,175,783**	1,465,922
Total patient accounts receivable	**8,265,365**	8,127,187
Less allowance for uncollectible accounts and contractual allowances	**3,645,181**	3,917,868
Patient accounts receivable, net	**$ 4,620,184**	$ 4,209,319

Accounts Payable and Accrued Expenses	**2008**	2007
Payable to suppliers and vendors	**$ 960,582**	$ 832,612
Accrued workers compensation	**214,789**	292,988
Patient refunds	**63,290**	63,308
Other	**112,306**	-
	$ 1,350,967	$ 1,188,908

Accrued Salaries, Wages and Employee Benefits	**2008**	2007
Accrued salaries	**$ 326,882**	$ 251,792
Sick pay	**254,165**	226,426
Vacation	**872,235**	781,178
Withholdings and benefit accruals	**535,099**	537,786
	$ 1,988,381	$ 1,797,182

Note 4. Capital Assets

Capital Assets consist of the following:

December 31, 2008	December 31, 2007	Additions	Transfers	Reductions	**December 31, 2008**
Capital Assets					
Land improvements	$ 569,910	$ 2,000	$ 1,700	$ -	**$ 573,610**
Buildings and improvements	13,604,839	348,531	65,060	-	**14,018,430**
Equipment	16,442,446	955,711	46,958	-	**17,445,115**
Construction in process (not depreciated)	85,462	110,857	(113,718)	-	**82,601**
Total capital assets	30,702,657	1,417,099	-	-	**32,119,756**
Less accumulated depreciation for:					
Land improvements	253,371	11,828	-	-	**265,199**
Buildings and improvements	5,428,817	432,407	-	-	**5,861,224**
Equipment	12,009,488	1,332,873	-	-	**13,342,361**
Total accumulated depreciation	17,691,676	1,777,108	-	-	**19,468,784**
Capital assets, net	$13,010,981	$ (360,009)	$ -	$ -	**$12,650,972**

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NOTES TO FINANCIAL STATEMENTS

December 31, 2007	December 31, 2006	Additions	Transfers	Reductions	2007
Capital Assets					
Land improvements	$ 562,007	$ 7,903	$ -	$ -	$ 569,910
Buildings and improvements	12,446,144	1,158,695	-	-	13,604,839
Equipment	12,706,751	3,735,695	-	-	16,442,446
Construction in process (not depreciated)	-	85,462	-	-	85,462
Total capital assets	25,714,902	4,987,755	-	-	30,702,657
Less accumulated depreciation for:					
Land improvements	239,407	13,964	-	-	253,371
Buildings and improvements	5,049,037	379,780	-	-	5,428,817
Equipment	11,056,639	952,849	-	-	12,009,488
Total accumulated depreciation	16,345,083	1,346,593	-	-	17,691,676
Capital assets, net	$ 9,369,819	$ 3,641,162	$ -	$ -	$13,010,981

	2008	2007
Cost of equipment under capital lease	**$ 3,128,320**	$ 3,610,093
Accumulated amortization	**(1,066,948)**	(1,185,308)
Net carrying amount	**$ 2,061,372**	$ 2,424,782

Depreciation expense for the year ended December 31, 2008 and 2007 totaled $1,767,109 and $1,375,950, respectively.

Note 5. Estimated Third-Party Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare program for the settlement of the cost reports. The balance of December 31, 2008 consists of estimated amounts as follows:

	2008	2007
2006	$ -	$ (376,000)
2007	(119,629)	(124,000)
2008	119,629	-
Total	$ -	$ (500,000)

Note 6. Line of Credit

As of December 31, 2008, the Hospital has a $2,000,000 line of credit with a bank. The balance on the line of credit was $719,454 as of December 31, 2008. Interest on line of credit is at prime plus 0.25% which at December 31, 2008, was approximately 5.25%. The loan is secured by accounts receivable with a net book value of $4,620,184. Activity on the line of credit is as follows:

	December 31, 2007	Borrowings	Payments	December 31, 2008
Line of credit	$ 477,000	$ 720,000	$ 477,546	$ 719,454

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NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations

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

	December 31, 2007	Additions	Payments	**December 31, 2008**	Amounts due within 1 year
1993 bonds, issued July 1, 1993	$ 525,000	$ -	$ 235,000	**$ 290,000**	$ 50,000
1999 bonds, issued March 1, 1999	1,810,000	-	115,000	**1,695,000**	120,000
Bond discount	(42,809)	-	(4,770)	**(38,039)**	(4,770)
Note payable, Hocking County Public Health Department, December 2003	142,500	-	28,500	**114,000**	28,500
Note payable, bank, March 2005	127,369	-	51,434	**75,935**	53,395
Capital lease obligations	2,490,201	476,684	704,721	**2,262,164**	757,027
	$ 5,052,261	$ 476,684	$ 1,129,885	**$ 4,399,060**	$ 1,004,152

	December 31, 2006	Additions	Payments	December 31, 2007	Amounts due within 1 year
1993 bonds, issued July 1, 1993	$ 750,000	$ -	$ 225,000	$ 525,000	$ 235,000
1999 bonds, issued March 1, 1999	1,925,000	-	115,000	1,810,000	115,000
Bond discount	(47,579)	-	(4,770)	(42,809)	(4,770)
Note payable, Hocking County Public Health Department, December 2003	171,000	-	28,500	142,500	28,500
Note payable, bank, March 2005	171,366	-	43,997	127,369	51,433
Capital lease obligations	270,697	2,651,636	432,132	2,490,201	558,318
	$ 3,240,484	$ 2,651,636	$ 839,859	$ 5,052,261	$ 983,481

A description of long-term debt at December 31, 2008 follows:

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 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 $190,000 plus interest.

Note payable, Hocking County Public Health Department, bi-annual payments of $14,250 due and payable each June and December through 2012. Collateralized by building with a net book value of approximately 206,000, interest per the agreement was 0% and management determined that imputed interest was immaterial.

The 1993 and 1999 Bonds are unvoted general obligations of the County. The basic security for the Bonds is the County's ability to levy an ad valorem tax on all real and personal property in the County.

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NOTES TO FINANCIAL STATEMENTS

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

Capital lease obligations at varying rates of imputed interest from 2.9% to 10.4%, collateralized by leased equipment with a net book value of $2,061,372, maturing through 2013.

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

Minimum payments on these obligations to maturity as of December 31, 2008 follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2009	$ 247,125	$ 96,028	$ 757,027	$ 119,789
2010	231,271	86,684	506,658	54,648
2011	218,730	78,028	513,497	33,774
2012	223,730	68,683	451,705	11,038
2013	205,231	58,973	33,277	436
Thereafter	1,010,809	177,175	-	-
	$ 2,136,896	$ 565,571	$ 2,262,164	$ 219,685

Note 8. Net Patient Service Revenue

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

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

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

The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through 2006.

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

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Hospital's charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement. The Hospital's Medicaid cost reports have been settled by the Medicaid program through December 31, 2003.

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

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2008 and 2007 is as follows:

	2008	2007
Gross patient service revenue	**$ 67,740,610**	$ 60,849,058
Less third-party allowances	**32,537,084**	28,078,551
Less bad debts	**3,990,130**	3,323,916
Net patient service revenue	**$ 31,213,396**	$ 29,446,591

Note 9. Pension Plan

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

Funding Policy

The required actuarially-determined contribution rates for the Hospital and for employees are 14.0% and 10.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2008	$ 1,857,743
2007	$ 1,686,225
2006	$ 1,458,752

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-employment healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2008 employer contribution rates of 14.0% used to fund healthcare was 7.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and amounts below are based on OPERS' latest actuarial review performed as of December 31, 2007. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2007 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 4% for the next 7 years. In subsequent years (8 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 363,503 and 374,979 active contributing participants as of December 31, 2008 and 2007, respectively. The number of active contributing participants for both plans used in the December 31, 2007 actuarial valuation was 364,076.

Hospital contributions made to fund post-employment benefits approximated $928,872 for 2008.

The actuarial value of OPERS net assets available for OPEB at December 31, 2007 was $12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was $29.8 billion and $17.0 billion, respectively.

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, 2007 and 2008, allowed additional funds to be allocated to the health care plan.

Note 10. Deferred Compensation

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

Note 11. Professional Liability Insurance

The Hospital has professional liability insurance with a commercial carrier. Coverage is $1,000,000 per occurrence and $3,000,000 in the aggregate. In addition, the Hospital has umbrella coverage of $2,000,000 per occurrence and $2,000,000 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.

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Note 12. Related Parties

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

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

Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation)
Unaudited Condensed Balance Sheet
December 31, 2008 and 2007

ASSETS	**2008**	2007
Current Assets		
Cash and cash equivalents	**$ 141,502**	$ 457,198
Investments	**830,600**	531,853
Property and equipment, net	**612,567**	629,469
Total assets	**$ 1,584,669**	$ 1,618,520
Current liabilities		
Total liabilities	**$ 59,360**	$ 84,638
Total net assets	**1,525,309**	1,533,882
Total liabilities and net assets	**$ 1,584,669**	$ 1,618,520

Unaudited Condensed Statements of Activities
December 31, 2008 and 2007

	2008	2007
Total support	**$ 152,527**	$ 240,815
Expenses	**40,600**	47,571
Donations and pledges to the Hospital	**120,500**	120,500
Increase in net assets	**(8,573)**	72,744
Net assets, beginning of year	**1,533,882**	1,461,138
Net assets, end of year	**$ 1,525,309**	$ 1,533,882

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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 year ending December 31, follows:

2009	$ 75,072
2010	75,072
2011	75,072
2012	75,072
2013	75,072
Thereafter	356,592
Total future minimum lease payments	$ 731,952

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

During the years ended December 31, 2008 and 2007, the Hospital disbursed funds totaling $1,502,602 and $1,515,272, respectively, on behalf of HVMG to fund operating deficits. These amounts were paid to the Foundation due to the nature of the control the Foundation has over HVMG. There were no amounts due to or from HVMG at December 31, 2008.

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

Note 13. Fair Value of Financial Instruments

As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* effective January 1, 2008, the Hospital adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received for an asset or paid to transfer a liability to (an exit price) in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

	Total at December 31, 2008	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash Equivalent investments and assets limited as to use	$ 1,122,583	$ 1,122,583	$ -	$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

The Hospital has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

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

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

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

We have audited the financial statements of Hocking Valley Community Hospital (the Hospital) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 29, 2009, which was adverse with respect to the financial statements of the Hocking Valley Community Hospital Memorial Fund, Inc., which is a legally separate discretely presented component unit of the Hospital, the financial statements for which have been omitted from the financial statements of the Hospital, but which was unqualified with respect to the financial statements of the Hospital. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated April 29, 2009.

Hocking Valley Community Hospital's response to the findings in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Hospital's response, and accordingly, we express no opinion on it. This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Hocking County Commissioners and is not intended to be and should not be used by anyone other than those specified parties.

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

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

Charleston, West Virginia
April 29, 2009

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

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2008

08-01

Criteria or Specific Requirement

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

Condition

The patient accounts receivable subsidiary ledger included numerous credit balances totaling approximately $560,000 that were in many cases over four years old and represented payments and other posting that had not been properly accounted for. The credit balance accounts full into several classifications including unapplied cash receipts, credits resulting from a system conversion, legal fees, interest and some patient refunds.

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding as management has been aware of this issue for several years. We have begun the process of researching each credit balance and plan to take the appropriate corrective action in 2009 based upon the results of our research.

08-2

Criteria or Specific Requirement

Investments that the Hospital has significant influence or control over should be accounted for under the equity method of accounting. The equity method of accounting requires the investor to record their share of the investee's gains and losses as income and expense.

Condition

The Hospital has a 50% ownership interest in the Hocking Pickaway Laundry that is not recorded in the Hospital's financial statements and is not accounted for under the equity method of accounting.

Effect

The Hospital's financial statements do not reflect their ownership interest in the Hocking Pickaway laundry and do not reflect their share of the gains and losses of the laundry.

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

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2008

Recommendation

The Hospital should record their investment in the laundry in accordance with the rules established for equity-method investments.

Views of Responsible Officials and Planned Corrective Actions

Management is in the process of evaluating whether to continue to hold the laundry investment. Management will re-evaluate the accounting treatment for the laundry if the decision is made to continue holding the investment.

Mary Taylor, CPA
Auditor of State

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 5, 2009