HOCKING VALLEY COMMUNITY HOSPITAL

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

Financial and Compliance Report

December 31, 2010

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

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Hocking Valley Community Hospital, prepared by Arnett & Foster, P. L. L. C., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

May 23, 2011

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www. auditor.state.oh.us

This Page is Intentionally Left Blank.

CONTENTS

This Page is Intentionally Left Blank.

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

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the 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, 2010 and 2009, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2010, would have been presented as $1,840,424; $600; $1,839,824; $305,695; and $79,407, 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, 2009, would have been presented as $1,672,896; $59,360; $1,613,536; $256,078; and $167,851, 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, 2010 and 2009, 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, 2010 and 2009, 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 12, 2011, on our consideration of Hocking Valley Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2010. We issued a similar report for the year ended December 31, 2009, dated April 21, 2010, which has not been included with the 2010 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 12, 2011

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's (the Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the Hospital's financial statements, which begin on page 8. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets increased in 2010 and 2009 by $857 or 7.4% and $351 or 3.1%, respectively.
- The Hospital reported operating gains of $3,206 and $2,369 in 2010 and 2009, respectively.
- Total revenues increased from 2009 to 2010 by $1,784 or 5.4%.
- The Hospital expended $2,308 in 2010 and $2,115 in 2009 in support of Hocking Valley Medical Group, Inc.
- The Hospital had an excess of revenues over expenses of $791 in 2010 and $172 in 2009.
- The Hospital made significant capital additions in 2010 totaling $1,041, of which $666 was funded from operations and $375 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, noncapital related financing and capital and related financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 8. The Hospital's net assets increased by $857 or 7.4% and $351 or 3.1% in 2010 and 2009, respectively, as you can see from Table 1.

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

	2010	2009	2008
Assets			
Current assets	**$ 7,859**	$ 6,641	$ 6,603
Capital assets, net	**11,225**	11,846	12,651
Restricted and limited use assets	**330**	330	330
Other noncurrent assets	**90**	132	174
Total assets	**$ 19,504**	$ 18,949	$ 19,758
Liabilities			
Long-term obligations	**$ 2,304**	$ 2,861	$ 3,395
Current liabilities	**4,692**	4,437	5,063
Total liabilities	**$ 6,996**	$ 7,298	$ 8,458
Net assets			
Unrestricted	**$ 4,121**	$ 3,091	$ 2,769
Invested in capital assets, net of related debt	**8,057**	8,230	8,201
Restricted	**330**	330	330
Total net assets	**$ 12,508**	$ 11,651	$ 11,300

A significant component of the Hospital's assets are capital assets. Capital assets decreased by $621 or 5.2% in 2010 and decreased by $805 or 6.4% in 2009. Fixed assets acquired by the Hospital either through direct purchase or capital lease were $1,041 in 2010 and $965 in 2009. These additions were offset by depreciation of $1,651 and $1,770 in 2010 and 2009, respectively. The increase in assets from 2009 to 2010 reflect an increase in accounts receivable as a result of increased revenues and Medicare accounts receivable.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the change in revenues and expenses for 2010, 2009 and 2008.

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Revenue:			
Net patient service revenue	**$ 34,852**	$ 33,061	$ 31,213
Other	**228**	235	268
Total operating revenue	**$ 35,080**	$ 33,296	$ 31,481

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

	2010	2009	2008
Expenses:			
Salaries and wages	**$ 14,029**	$ 13,674	$ 13,681
Employee benefits	**4,758**	4,154	3,951
Supplies and other	**7,103**	7,417	7,157
Professional fees and services	**4,056**	3,639	3,565
Depreciation and amortization	**1,693**	1,812	1,819
Insurance	**235**	231	253
Total operating expenses	**31,874**	30,927	30,426
Operating income	**3,206**	2,369	1,055
Nonoperating revenues (expenses) and capital grants and contributions	**(2,414)**	(2,196)	(1,728)
Revenue and gains over expenses	**$ 791**	$ 173	$ (673

Net patient service revenue increased by $1,791 or 5.4% from 2009 to 2010. This increase was driven by a 3% rate increase. These increases were somewhat offset by a 4% decline in inpatient volume.

Salaries and wages increased 2.6% from 2009 to 2010 primarily due to a 3% increase in total full-time equivalents. Employee benefits experienced an increase of 14.5% from 2009 and 2010 due primarily to increased employee health insurance claims. Professional fees increased 11.4% from 2009 to 2010 due primarily to increased presence of a Radiology mobile unit on site at the Hospital.

Sources of Revenue

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

The table below presents the percentages of net revenue for patient services by payer, for the years ended December 31, 2010, 2009 and 2008, respectively.

	2010	2009	2008
Medicare	**52%**	43%	44%
Medicaid	**8%**	10%	7%
Self-Pay	**1%**	1%	1%
Commercial and other	**39%**	46%	48%
	100%	100%	100%

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

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income. Generally, operating income is 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 operating income. Operating income was $3,206 and $2,369 in 2010 and 2009, respectively.

The increase in the Hospital's total operating income in 2010 of $837 or 35% from 2009 is the result of a 5.4% increase in net patient service revenue due to a combination of rate and volume increases while containing the increase in expenses to only 3% from 2009. During 2010, the Hospital increased gross charge rates 3% compared to 2009. The increase in the Hospital's total operating revenue in 2009 of $1,815 or 6% from 2008 is the result of a rate increase. During 2009, the Hospital also increased gross charge rates 3% compared to 2008. 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 $1,238 and $1,234 were waived during 2010 and 2009, 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 (Expenses) and Capital Grants and Contributions

Nonoperating revenues (expenses) 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 and donations. The Hospital's investment income resulted in a gain of $23 and $113 in 2010 and 2009, respectively. The Hospital received noncapital contributions in 2010 of approximately $51 versus $54 in 2009. The Hospital provided funding to the Hocking Valley Medical Group, Inc. of $2,308 in 2010, an increase of $193 from the amount funded in 2009 of $2,115.

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 2010 and 2009 of $3,388 and $4,598, respectively.

Capital Asset and Debt Administration

Capital assets

The Hospital had $11,225 and $11,846 invested in capital assets, net of accumulated depreciation in 2010 and 2009, respectively. The Hospital acquired or constructed capital assets in the amount of $1,041 and $965 during 2010 and 2009, respectively.

Debt

The Hospital had $3,205 and $3,660 in bonds and capital lease obligations outstanding at December 31, 2010 and 2009, respectively. Additionally, the Hospital has a line of credit with a local lending institution in 2010. No amount was outstanding on this line of credit in 2009 or 2010.

Contacting the Hospital's Financial Management

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

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

BALANCE SHEETS
December 31, 2010 and 2009

ASSETS	2010	2009
Current Assets		
Cash and cash equivalents	$ 1,321,064	$ 1,766,327
Patient accounts receivable, net of estimated uncollectibles of approximately $1,028,000, 2010; $929,000, 2009	5,309,759	4,378,476
Inventories	265,004	297,489
Prepaid expenses and other assets	963,177	198,532
Total current assets	7,859,004	6,640,824
Assets Limited as to Use		
Under bond indenture agreement	330,000	330,000
Capital assets, net	11,225,264	11,846,258
Other Assets		
Deferred financing costs, net	36,682	43,646
Intangible asset, net	52,869	88,115
Total other assets	89,551	131,761
Total assets	$ 19,503,819	$ 18,948,843

LIABILITIES AND NET ASSETS	2010	2009
Current Liabilities		
Current portion of capital lease obligation	$ 653,728	$ 575,939
Current portion of long-term debt	247,231	223,137
Accounts payable and accrued expenses	1,423,818	1,225,071
Accrued salaries, wages and employee benefits	2,237,688	2,157,217
Estimated third-party payor settlements	130,000	256,000
Total current liabilities	4,692,465	4,437,364
Capital lease obligations, net of current portion	864,034	1,202,215
Long-Term Debt, net of current portion	1,439,770	1,658,500
Total liabilities	6,996,269	7,298,079
Net Assets		
Invested in capital assets, net of related debt	8,057,183	8,230,113
Restricted for debt service	330,000	330,000
Unrestricted	4,120,367	3,090,651
Total net assets	12,507,550	11,650,764
Total liabilities and net assets	$ 19,503,819	$ 18,948,843

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

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues		
Net patient service revenue, net of provision for bad debts of $4,641,658, 2010 and $4,787,651, 2009	**$ 34,852,376**	$ 33,061,082
Other operating revenue	**227,195**	234,856
Total operating revenues	**35,079,571**	33,295,938
Operating expenses		
Salaries and wages	**14,029,290**	13,673,627
Employee benefits	**4,758,056**	4,153,988
Supplies and other expenses	**7,103,236**	7,416,829
Professional fees and services	**4,055,911**	3,639,613
Depreciation and amortization	**1,692,778**	1,812,081
Insurance	**234,748**	231,207
Total operating expenses	**31,874,019**	30,927,345
Operating income	**3,205,552**	2,368,593
Nonoperating revenues (expenses)		
Funding to Hocking Valley Medical Group, Inc.	**(2,308,000)**	(2,115,000)
Investment income	**22,960**	112,508
Interest expense	**(180,073)**	(247,847)
Loss on sale of fixed assets	**(612)**	-
Noncapital grants and contributions	**51,457**	54,208
Total nonoperating revenues (expenses)	**(2,414,268)**	(2,196,131)
Excess of revenues over expenses before capital grants and contributions	**791,284**	172,462
Capital grants and contributions	**65,502**	178,328
Increase in net assets	**856,786**	350,790
Net assets, beginning of year	**11,650,764**	11,299,974
Net assets, end of year	**$ 12,507,550**	$ 11,650,764

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from patients and third party payors	$ 33,795,093	$ 33,558,790
Cash paid to employees for wages and benefits	(18,706,875)	(17,658,779)
Cash paid to vendors for goods and services	(11,927,308)	(11,536,938)
Other receipts, net	227,195	234,856
Net cash provided by operating activities	3,388,105	4,597,929
Cash Flows from Noncapital Financing Activities		
Contributions	51,457	54,208
Net (payments) borrowings on line-of-credit	-	(719,454)
Net cash provided by (used in) noncapital financing activities	51,457	(665,246)
Cash Flows from Capital and Related Financing Activities		
Repayment of long-term debt	(199,406)	(260,030)
Repayment of capital lease obligations	(635,853)	(814,564)
Interest paid on long-term debt	(175,303)	(243,076)
Purchase of capital assets	(665,977)	(634,603)
Proceeds from the sale of capital assets	11,252	-
Capital grants and contributions	65,502	178,328
Net cash used in capital and related financing activities	(1,599,785)	(1,773,945)
Cash Flows from Investing Activities		
Investment income	22,960	112,508
Funding to Hocking Valley Medical Group, Inc.	(2,308,000)	(2,115,000)
Net cash used in investing activities	(2,285,040)	(2,002,492)
Net decrease in cash and cash equivalents	(445,263)	156,246
Cash and cash equivalents, beginning of year	2,096,327	1,940,081
Cash and cash equivalents, end of year	$ 1,651,064	2,096,327
Reconciliation of cash and cash equivalents to the Statements of Net Assets:		
Cash and cash equivalents in current assets	$ 1,321,064	$ 1,766,327
Restricted cash and cash equivalents	330,000	330,000
Total cash and cash equivalents	$ 1,651,064	$ 2,096,327
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	$ 3,205,552	$ 2,368,593
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,692,778	1,812,081
Provision for bad debts	4,641,658	4,787,651
Changes in:		
Patient accounts receivable	(5,572,941)	(4,545,943)
Inventories, prepaid expenses and other assets	(732,160)	(123,393)
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	279,218	42,940
Estimated third-party settlements	(126,000)	256,000
Net cash provided by operating activities	$ 3,388,105	$ 4,597,929
Supplemental Disclosure of Noncash Financing Activities		
Assets acquired under capital lease obligations	$ 375,461	$ 330,554

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description 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.

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, 2010 and 2009 was $77,830 and $70,866, respectively.

Costs of borrowings: Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2010 or 2009.

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 expendable net* assets are noncapital net 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 2010 and 2009. 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 2010 and 2009.

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 limited as to use: Assets limited as to use 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.

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 2010, approximately 52% of the Hospital's total net patient revenue was derived from Medicare payments while 8% was derived from Medicaid. In 2009, approximately 43% of the Hospital's total net patient revenue was derived from Medicare payments while 10% 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 $1,238,885 in 2010 and $1,234,107 in 2009.

Operating revenues and expenses: The Hospital's statement of operations 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.

Subsequent Events: The Hospital has evaluated subsequent events through April 12, 2011, the date on which the financial statements were available to be issued.

Note 2. Deposits and Cash Equivalent Investments

<u>Deposits</u>

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At December 31, 2010, the carrying amount of the Hospital's bank deposits for all funds is $418,974 as compared to a bank balance of $980,739. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances at December 31, 2010, $332,127, is covered by Federal insurance programs and $648,612 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

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

NOTES TO FINANCIAL STATEMENTS

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At December 31, 2010 and 2009, 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, 2010	Carrying Amount	Less than 1 Year	1 - 5 Years
Agency bonds	$ 8,132	$ -	$ 8,132
Certificate of deposit	546,975	526,975	20,000
Money Market Funds	676,983	676,983	-
	$ 1,232,090	$ 1,203,958	$ 28,132

		Maturities	
December 31, 2009	Carrying Amount	Less than 1 Year	1 - 5 Years
Agency bonds	$ 9,057	$ -	$ 9,057
Certificate of deposit	535,329	515,329	20,000
Money Market Funds	855,412	855,412	-
	$ 1,399,798	$ 1,370,741	$ 29,057

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, 2010 and 2009, the Hospital had 44% and 38%, respectively, of its investments invested in certificates of deposit at local banks.

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, 2010 and 2009 consisted of these amounts:

Patient Accounts Receivable	**2010**	2009
Receivable from patients and their insurance carriers	$ 4,569,792	$ 4,678,636
Receivable from Medicare	4,026,093	2,635,097
Receivable from Medicaid	1,135,626	1,476,993
Total patient accounts receivable	9,731,511	8,790,726
Less allowance for uncollectible accounts and contractual allowances	4,421,752	4,412,250
Patient accounts receivable, net	$ 5,309,759	$ 4,378,476

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

NOTES TO FINANCIAL STATEMENTS

Accounts Payable and Accrued Expenses	2010	2009
Payable to suppliers and vendors	**$ 1,223,341**	$ 825,941
Accrued workers compensation	**194,436**	337,576
Other	**6,041**	61,554
	$ 1,423,818	$ 1,225,071

Accrued Salaries, Wages and Employee Benefits	2010	2009
Accrued salaries	**$ 397,695**	$ 372,043
Sick pay	**303,457**	321,033
Vacation	**905,374**	918,361
Withholdings and benefit accruals	**631,162**	545,780
	$ 2,237,688	$ 2,157,217

Note 4. Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2010 and 2009 were as follows:

December 31, 2010	December 31, 2009	Additions	Transfers	Retirements	**December 31, 2010**
Capital Assets					
Land improvements	$ 573,610	$ 14,900	$ -	$ -	**$ 588,510**
Buildings and improvements	14,011,234	41,074	164,899	-	**14,217,207**
Equipment	15,564,154	735,246	96,238	(3,992,966)	**12,402,672**
Construction in process (not depreciated)	307,081	250,218	(261,137)	-	**296,162**
Total capital assets	30,456,079	1,041,438	-	(3,992,966)	**27,504,551**
Less accumulated depreciation for:					
Land improvements	275,792	11,106	-	-	**286,898**
Buildings and improvements	6,268,232	404,616	-	-	**6,672,848**
Equipment	12,065,797	1,246,710	-	(3,992,966)	**9,319,541**
Total accumulated depreciation	18,609,821	1,662,432	-	(3,992,966)	**16,279,287**
Capital assets, net	$ 11,846,258	$ (620,994)	$ -	$ -	**$ 11,225,264**

December 31, 2009	December 31, 2008	Additions	Transfers	Retirements	December 31, 2009
Capital Assets					
Land improvements	$ 573,610	$ -	$ -	$ -	**$ 573,610**
Buildings and improvements	14,018,430	8,135	-	(15,331)	**14,011,234**
Equipment	17,445,115	361,738	370,804	(2,613,503)	**15,564,154**
Construction in process (not depreciated)	82,601	595,284	(370,804)	-	**307,081**
Total capital assets	32,119,756	965,157	-	(2,628,834)	**30,456,079**
Less accumulated depreciation for:					
Land improvements	265,199	10,593	-	-	**275,792**
Buildings and improvements	5,861,224	422,339	-	(15,331)	**6,268,232**
Equipment	13,342,361	1,336,939	-	(2,613,503)	**12,065,797**
Total accumulated depreciation	19,468,784	1,769,871	-	(2,628,834)	**18,609,821**
Capital assets, net	$ 12,650,972	$ (804,714)	$ -	$ -	**$ 11,846,258**

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

NOTES TO FINANCIAL STATEMENTS

	2010	2009
Cost of equipment under capital lease	$ 3,834,309	$ 3,458,874
Accumulated amortization	(2,541,152)	(1,877,676)
Net carrying amount	$ 1,293,157	$ 1,581,198

Depreciation expense for the year ended December 31, 2010 and 2009 totaled $1,650,568 and $1,769,871, respectively.

Note 5. Estimated Third-Party Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare and Medicaid programs for the settlement of current and prior year cost reports. The balance at December 31, 2010 and 2009 consists of estimated amounts as follows:

	2010	2009
2004	$ -	$ (48,000)
2008	-	(40,000)
2009	(40,000)	(168,000)
2010	(90,000)	-
Total	$ (130,000)	$ (256,000)

Note 6. Line of Credit

As of December 31, 2010, the Hospital has a $2,000,000 line of credit with a bank. The balance on the line of credit was $0 as of December 31, 2010. Interest on line of credit is at prime plus .25% which was approximately 5% at December 31, 2010. The loan is secured by accounts receivable with a net book value of $5,309,759.

There was no activity on the line of credit during 2010.

Note 7. Long-Term Obligations

A schedule of changes in the Hospital's noncurrent liabilities for 2010 and 2009 is as follows:

	December 31, 2009	Additions	Payments	December 31, 2010	Amounts due within 1 year
1993 bonds, issued July 1, 1993	$ 240,000	$ -	$ (55,000)	$ 185,000	$ 55,000
1999 bonds, issued March 1, 1999	1,575,000	-	(130,000)	1,445,000	140,000
Bond discount	(33,268)	-	4,769	(28,499)	(4,769)
Note payable, Hocking County Public Health Department, December 2003	85,500	-	-	85,500	57,000
Note payable, bank, March 2005	14,405	-	(14,405)	-	-
Capital lease obligations	1,778,154	375,461	(635,853)	1,517,762	653,728
	$ 3,659,791	$ 375,461	$ (830,489)	$ 3,204,763	$ 900,959

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

NOTES TO FINANCIAL STATEMENTS

	December 31, 2008	Additions	Payments	**December 31, 2009**	Amounts due within 1 year
1993 bonds, issued July 1, 1993	$ 290,000	$ -	$ (50,000)	**$ 240,000**	$ 55,000
1999 bonds, issued March 1, 1999	1,695,000	-	(120,000)	**1,575,000**	130,000
Bond discount	(38,039)	-	4,771	**(33,268)**	(4,770)
Note payable, Hocking County Public Health Department, December 2003	114,000	-	(28,500)	**85,500**	28,502
Note payable, bank, March 2005	75,935	-	(61,530)	**14,405**	14,405
Capital lease obligations	2,262,164	330,554	(814,564)	**1,778,154**	575,939
	$ 4,399,060	$ 330,554	$(1,069,823)	**$ 3,659,791**	$ 799,076

A description of long-term debt at December 31, 2010 follows:

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 $178,000, 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.

Capital lease obligations at varying rates of imputed interest from 0.6% to 14.2%, collateralized by leased equipment with a net book value of approximately $1,378,000, maturing through 2015.

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, 2010 follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2011	$ 247,231	$ 78,028	$ 653,728	$ 65,548
2012	223,730	68,683	595,448	36,897
2013	205,231	58,973	166,865	20,359
2014	147,635	48,688	84,404	4,086
2015	157,635	41,563	17,317	210
Thereafter	705,539	86,925	-	-
	$ 1,687,001	$ 382,860	$ 1,517,762	$ 127,100

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

NOTES TO FINANCIAL STATEMENTS

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 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.

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.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 and 2009 net patient service revenue increased (decreased) approximately $511,000 and $(165,000), respectively, due to the addition of allowances not previously estimated that are considered necessary, and the removal of allowances that are no longer considered necessary due to tentative or final settlements in excess of amounts previously estimated.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Gross patient service revenue	**$ 76,687,172**	$ 76,085,165
Less third-party allowances	**37,193,138**	38,236,432
Less bad debts	**4,641,658**	4,787,651
Net patient service revenue	**$ 34,852,376**	$ 33,061,082

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
2010	$ 1,947,687
2009	$ 1,899,180
2008	$ 1,857,743

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 2010 employer contribution rates of 14.0% used to fund healthcare was 5.5% from January 1 through February 28, 2010 and was 5.0% from March 1 through December 31, 2010. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

Hospital contributions made to fund post-employment benefits approximated $696,000 and $950,000 for 2010 and 2009, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective on January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007 and 2008, allowing additional funds to be allocated to the health care plan.

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

NOTES TO FINANCIAL STATEMENTS

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 $3,000,000 in the aggregate. The Hospital's coverage is on a claims made basis.

Note 12. Related Parties

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

The Foundation is the controlling member of the Hocking Valley Medical Group, Inc. (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, 2010 and 2009

ASSETS	**2010**	2009
Current Assets		
Cash and cash equivalents	**$ 213,919**	$ 260,629
Investments	**1,048,179**	816,910
Property and equipment, net	**578,326**	595,357
Total assets	**$ 1,840,424**	$ 1,672,896
Current liabilities		
Total liabilities	**$ 600**	$ 59,360
Total net assets	**1,839,824**	1,613,536
Total liabilities and net assets	**$ 1,840,424**	$ 1,672,896

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

NOTES TO FINANCIAL STATEMENTS

Hocking Valley Community Hospital Memorial Fund, Inc. (the Foundation)
Unaudited Condensed Statements of Activities
December 31, 2010 and 2009

	2010	2009
Total support	**$ 305,695**	$ 256,078
Expenses	**59,407**	76,551
Donations and pledges to the Hospital	**200,000**	91,300
Increase in net assets	**226,288**	88,227
Net assets, beginning of year	**1,613,536**	1,525,309
Net assets, end of year	**$ 1,839,824**	$ 1,613,536

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:

2011	$ 75,072
2012	75,072
2013	75,072
2014	75,072
2015	75,072
Thereafter	206,448
Total future minimum lease payments	$ 581,808

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, 2010 and 2009, the Hospital disbursed funds totaling $2,308,000 and $2,115,000, 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, 2010 and 2009.

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.

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

NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Topic 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. This Topic 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:

Level 1: Quoted prices 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, 2010	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash Equivalent				
Investments and assets limited as to use	$ 1,232,090	$ 1,232,090	$ -	$ -

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

NOTES TO FINANCIAL STATEMENTS

	Total at December 31, 2009	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash Equivalent				
Investments and assets limited as to use	$ 1,399,798	$ 1,399,798	$ -	$ -

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, 2010, and have issued our report thereon dated April 12, 2011, 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management and others within the entity 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 12, 2011

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

SCHEDULE OF FINDINGS AND RESPONSES

Reportable Conditions in Internal Control:

No matters were reported.

Compliance Findings:

No matters were reported.

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 2, 2011