HOCKING VALLEY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

Mary Taylor, CPA
Auditor of State

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

We have reviewed the Report of Independent Auditors of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., LLC, for the audit period January 1, 2006 to December 31, 2006. 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

May 22, 2007

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HOCKING VALLEY COMMUNITY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL
Logan, Ohio

We have audited the accompanying balance sheets of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of December 31, 2006 and 2005, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hocking Valley Community Hospital as of December 31, 2006 and 2005, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 25, 2007, on our consideration of Hocking Valley Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when considering the results of our audit.

Blue & Co., LLC

April 25, 2007

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, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a $2,896 or 27% increase in 2006.
- The Hospital reported operating gains of $2,743 and $1,275 in 2006 and 2005, respectively.
- Total revenues increased from 2005 to 2006 by $3,410 or 13%.

Using This Annual Report

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

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

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

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

Statement of Cash Flows

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

Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net assets increased by $2,896 or 27% in 2006 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2006	2005	$ Change	% Change
Assets				
Current assets	$ 10,073	$ 7,066	$ 3,007	42.6%
Capital assets, net	9,370	9,607	(237)	-2.5%
Restricted and limited use assets	330	330	-	0.0%
Other noncurrent assets	65	72	(7)	-10.4%
Total assets	$ 19,838	$ 17,075	$ 2,763	16.2%
Liabilities				
Long - term obligations	$ 2,616	$ 3,232	$ (616)	-19.1%
Current liabilities	3,575	3,092	483	15.6%
Total liabilities	6,191	6,324	(134)	-2.1%
Net assets				
Unrestricted	7,188	4,445	2,743	61.7%
Invested in capital assets, net of related debt	6,129	5,976	153	2.6%
Restricted	330	330	-	0.0%
Total net assets	$ 13,647	$ 10,751	$ 2,896	26.9%

A significant component of the change in the Hospital's assets is the increase in cash and cash equivalents. Cash and cash equivalents increased $2,729 or 168% from 2005 to 2006. During 2006, the Hospital generated an operating income of $2,743. During 2006, the Hospital repaid $634 on its long-term debt and capital lease obligations.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the changes in revenues and expenses for 2006 compared to 2005.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	$ Change	% Change
Revenue:				
Net patient service revenue	$ 29,610	$ 26,165	$ 3,445	13.2%
Other	94	128	(34)	-27.0%
Total operating revenue	29,704	26,293	3,410	13.0%
Expenses:				
Salaries and wages	10,826	9,951	875	8.8%
Employee benefits	3,288	3,161	127	4.0%
Supplies and other	6,361	5,951	410	6.9%
Professional fees and services	5,308	4,636	672	14.5%
Depreciation and amortization	925	1,047	(122)	-11.7%
Insurance	253	272	(19)	-7.0%
Total expenses	26,961	25,018	1,942	7.8%
Operating income	2,743	1,275	1,468	115.1%
Non operating gains (losses)	153	(88)	241	-274.1%
Revenue and gains over expenses	$ 2,896	$ 1,187	$ 1,709	144.0%

Sources of Revenue

During 2006, the Hospital derived 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, 2006 and 2005, respectively.

	2006	2005
Medicare	36%	43%
Medicaid	11%	16%
Self-Pay	20%	6%
Commercial and other	33%	35%
	100%	100%

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

Operating Gains

The first component of the overall change in the Hospital's net assets is its operating income gain, generally the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. Operating gains in 2006 increased by $1,468 or 115% from 2005.

The increase in the Hospital's total operating revenue in 2006 of $3,410 or 13% from 2005 is the result of rate and volume increases. During 2006, the Hospital increased gross charge rates 5% compared to 2005. 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 $653 were waived during 2006.

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 Gains (losses)

Non operating gains (losses) are the result of changes in the Hospital's investment gain (loss) and donations. The Hospital's investment income resulted in a gain of $153 in 2006. The Hospital received contributions in 2006 of approximately $163 versus $75 in 2005. The Hospital also incurred interest expense of $186 and $219 during 2006 and 2005, respectively.

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 cash in 2006 of $2,729.

Capital Asset and Debt Administration

Capital assets

At the end of 2006, the Hospital had $9,370 invested in capital assets, net of accumulated depreciation, as detailed in the financial statements. The Hospital acquired or constructed capital assets in the amount of $680 and $757 during 2006 and 2005, respectively.

Debt

At year-end, the Hospital had $3,240 in bonds and capital lease obligations outstanding.

Contacting the Hospital's Financial Management

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

HOCKING VALLEY COMMUNITY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

ASSETS

	2006	2005
Current assets		
Cash and cash equivalents	$ 4,350,380	$ 1,621,283
Short-term investments	194,328	187,774
Patient accounts receivable, less allowance for doubtful accounts of $176,000 in 2006 and $214,000 in 2005	5,232,478	4,978,925
Inventories	229,480	154,137
Third-party settlements	-	77,360
Prepaid expenses and other assets	66,639	46,244
Total current assets	10,073,305	7,065,723
Asset whose use is limited		
Under bond indenture agreement	330,000	330,000
Property, plant and equipment, net	9,369,819	9,607,324
Other assets		
Deferred financing costs, net	64,537	71,501
Total other assets	64,537	71,501
Total assets	$ 19,837,661	$ 17,074,548

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

LIABILITIES AND NET ASSETS

	2006	2005
Current liabilities		
Current portion of capital lease obligations	$ 206,756	$ 241,292
Current portion of long-term debt	418,043	401,222
Line-of-credit	-	300,000
Accounts payable and accrued expenses	940,178	663,523
Accrued salaries, wages and employee benefits	1,651,149	1,485,435
Third-party settlements	358,560	-
Total current liabilities	3,574,686	3,091,472
Capital lease obligations, less current portion	63,941	270,697
Long-term debt, less current portion	2,551,744	2,961,293
Total liabilities	6,190,371	6,323,462
Net assets		
Unrestricted	7,187,955	4,445,266
Invested in capital assets, net of related debt	6,129,335	5,975,820
Restricted	330,000	330,000
Total net assets	13,647,290	10,751,086
Total liabilities and net assets	$ 19,837,661	$ 17,074,548

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Revenues		
Net patient service revenue	$ 29,609,786	$ 26,165,448
Other operating revenue	94,501	127,519
Total operating revenues	29,704,287	26,292,967
Operating expenses		
Salaries and wages	10,826,047	9,950,536
Employee benefits	3,287,543	3,160,501
Supplies and other	6,360,519	5,951,373
Professional fees and services	5,308,266	4,636,048
Depreciation and amortization	924,921	1,047,416
Insurance	253,974	271,666
Total operating expenses	26,961,270	25,017,540
Operating income	2,743,017	1,275,427
Nonoperating gains (losses)		
Investment income	175,765	54,812
Interest expense	(185,688)	(218,923)
Other	163,110	75,481
Total nonoperating gains (losses)	153,187	(88,630)
Revenues and gains over expenses	2,896,204	1,186,797
Net assets beginning of year	10,751,086	9,564,289
Net assets, end of year	$ 13,647,290	$ 10,751,086

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating activities		
Cash received from patients and third party payors	$ 29,792,153	$ 26,475,232
Cash paid to employees for wages and benefits	(13,671,221)	(13,801,400)
Cash paid to vendors for goods and services	(12,018,496)	(10,830,847)
Other receipts, net	94,501	127,519
Net cash from operating activities	4,196,937	1,970,504
Capital and related financing activities		
Repayment of long-term debt	(392,728)	(118,368)
Repayment of capital lease obligations	(241,292)	(355,835)
Repayment of / borrowing under line-of-credit	(300,000)	300,000
Interest expense	(185,688)	(218,923)
Acquisition of property and equipment	(680,453)	(756,777)
Contributions	163,110	75,481
Net cash from capital and related financing activities	(1,637,051)	(1,074,422)
Investing activities		
Change in investments, net	(6,554)	69,288
Investment income	175,765	54,812
Net cash from investing activities	169,211	124,100
Net change in cash and cash equivalents	2,729,097	1,020,182
Cash and cash equivalents		
Beginning of year	1,621,283	601,101
End of year	$ 4,350,380	$ 1,621,283
Reconciliation of operating income to net cash from operating activities		
Operating income	$ 2,743,017	$ 1,275,427
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	924,921	1,047,416
Bad debts	2,863,847	2,646,748
Changes in assets and liabilities		
Patient accounts receivable	(3,117,400)	(2,168,039)
Inventories, prepaid expenses and other assets	(95,737)	28,240
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	442,369	(690,363)
Third-party settlements	435,920	(168,925)
Net cash from operating activities	$ 4,196,937	$ 1,970,504
Supplemental disclosure of cash flow information		
Property additions under capital lease agreements	$ -	$ 39,750

See accompanying notes to financial statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Enterprise Fund Accounting

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

Use of Estimates

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The amount of charity care not recorded as revenue was $653,138 and $526,241 in 2006 and 2005, respectively.

Net Patient Service Revenue and Patient Accounts Receivable

Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. In 2006 and 2005, approximately 36% and 43%, respectively, of the Hospital's total patient revenue was derived from Medicare payments while 11% and 16%, respectively, was derived from Medicaid.

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

Investments

The Hospital's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds and money market funds. The portfolio is carried at fair value.

Assets Whose Use is Limited

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

Inventories

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

Property, Plant and Equipment

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

Land improvements	15-20 years
Building and improvements	10-40 years
Equipment	3-7 years

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, 2006 and 2005, was $49,975 and $43,011, respectively.

Cash and Cash Equivalents

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

Statements of Operations and Changes in Net Assets

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

Compensated Absences

Compensated absences are accrued when incurred utilizing the termination method.

Risk Management

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

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted 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.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare and Medicaid

The Hospital is a provider of services under the Medicare and Medicaid programs. The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at 101% of the cost of providing those services. Payment for a majority of Medicaid inpatient and outpatient services is based on a prospectively determined amount.

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, 2006 and 2005, are as follows:

	2006	2005
Gross patient service revenue	$ 55,124,674	$ 49,334,605
Less third-party allowances	22,651,041	20,522,409
Less bad debts	2,863,847	2,646,748
Net patient service revenue	$ 29,609,786	$ 26,165,448

3. DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2006 and 2005, the carrying amount of the Hospital's bank deposits for all funds is $4,350,380 and $1,621,283 as compared to a bank balance of $4,834,986 and $2,126,191, respectively. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances, at December 31, 2006 and 2005, $173,785 and $119,161, respectively is covered by Federal insurance programs and $4,661,201 and $2,007,030, respectively, 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 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:

	Carrying	Maturities	
December 31, 2006	amount	> than 1 year	1-5 years
Certificates of deposit	$ 524,328	$ 504,328	$ 20,000

	Carrying	Maturities	
December 31, 2005	amount	> than 1 year	1-5 years
Certificates of deposit	$ 517,774	$ 297,774	$ 120,000

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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 any eligible institution mentioned in Section 135.32; 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, 2006 and 2005, the Hospital had 100% of its investments invested in certificates of deposit at local banks.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	12/31/05	Additions	Retirements/ Transfers	12/31/06
Land improvements	$ 547,785	$ 14,222	$ -	$ 562,007
Buildings and improvements	12,369,420	76,724	-	12,446,144
Equipment	12,117,244	589,507	-	12,706,751
Total capital assets	25,034,449	680,453	-	25,714,902
Less accumulated depreciation				
Land improvements	223,796	15,611	-	239,407
Buildings and improvements	4,700,028	349,009	-	5,049,037
Equipment	10,503,301	553,338	-	11,056,639
Total accumulated depreciation	15,427,125	917,958	-	16,345,083
Capital assets, net	$ 9,607,324	$ (237,505)	$ -	$ 9,369,819

	12/31/04	Additions	Retirements/ Transfers	12/31/05
Land improvements	$ 282,195	$ 265,590	$ -	$ 547,785
Buildings and improvements	12,338,367	31,053	-	12,369,420
Equipment	11,657,110	460,134	-	12,117,244
Total capital assets	24,277,672	756,777	-	25,034,449
Less accumulated depreciation:				
Land improvements	209,674	14,122	-	223,796
Buildings and improvements	4,329,822	370,206	-	4,700,028
Equipment	9,847,177	656,124	-	10,503,301
Total accumulated depreciation	14,386,673	1,040,452	-	15,427,125
Capital assets, net	$ 9,890,999	$ (283,675)	$ -	$ 9,607,324

5. MEDICARE AND MEDICAID THIRD-PARTY SETTLEMENTS

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2004 and with Medicaid through 2001. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2006 and 2005, which Hospital management believes will approximate final settlements after audit by the respective agencies.

6. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2006 and 2005:

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

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

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

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

- Note payable, bi-annual payments of $14,250 due and payable each June and December through 2009. Collateralized by related building. In March 2005, the Hospital entered into a note payable for $250,000 that expires March 2010 at an interest rate of 5.25%

	12/31/05	Additions	Payments	12/31/06	Amount due within 1 year
1993 bonds, issued July 1, 1993	$ 965,000	$ -	$ 215,000	$ 750,000	$ 225,000
1999 bonds, issued March 1, 1999	2,035,000	-	110,000	1,925,000	115,000
Bond discount	(52,348)	-	4,769	(47,579)	-
Note payable, December 2003	199,500	-	28,500	171,000	28,500
Note payable, March 2005	215,363	-	44,548	170,815	49,543
Capital leases	511,989	-	240,741	271,248	206,756
	$ 3,874,504	$ -	$ 643,558	$ 3,240,484	$ 624,799

	12/31/04	Additions	Payments	12/31/05	Amount due within 1 year
1993 bonds, issued July 1, 1993	$ 1,170,000	$ -	$ 205,000	$ 965,000	$ 215,000
1999 bonds, issued March 1, 1999	2,140,000	-	105,000	2,035,000	110,000
Bond discount	(57,116)	-	4,768	(52,348)	-
Note payable, December 2003	228,000	-	28,500	199,500	28,500
Note payable, March 2005	-	250,000	34,637	215,363	47,722
Capital leases	867,823	39,750	395,584	511,989	241,292
	$ 4,348,707	$ 289,750	$ 773,489	$ 3,874,504	$ 642,514

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

The Hospital leases equipment under capital lease agreements, which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from approximately 2.9% to 10.4%. They expire at various dates through May 2010 and are collateralized by the equipment leased.

	December 31	
	2006	2005
Cost of equipment under capital lease	$ 962,173	$ 2,499,210
Accumulated amortization	692,025	1,997,794
Net carrying amount	$ 270,148	$ 501,416

Minimum payments on these obligations to maturity as of December 31, 2006 follows:

December 31,	Principal	Interest	Total
2007	$ 624,799	$ 143,609	$ 768,408
2008	477,717	117,476	595,193
2009	256,529	96,804	353,333
2010	230,124	86,758	316,882
2011	219,535	78,028	297,563
2012-2016	893,675	176,343	1,070,018
2017-2019	538,105	128,488	666,593
	$ 3,240,484	$ 827,505	$ 4,067,989

7. LINE OF CREDIT

As of December 31, 2006, the Hospital has a $1,000,000 line of credit with a bank. The balance on the line of credit was $0 and $300,000 as of December 31, 2006 and 2005, respectively. Activity on the line of credit is as follows:

	12/31/05	Borrowings	Payments	12/31/06
Line of Credit	$ 300,000	$ -	$ (300,000)	$ -

8. 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 13.7% and 9.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2006	$ 1,458,752
2005	$ 1,314,267
2004	$ 1,244,705

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-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2006 and 2005 employer contribution rates of 13.7% used to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2005. 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 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 2005 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 6% for the next 9 years. In subsequent years (10 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005 actuarial valuation was 358,804.

Hospital contributions made to fund post-employment benefits approximated \$479,000 and \$388,000 for 2006 and 2005, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2005 was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was \$31.3 billion and \$20.2 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 is 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, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

9. 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.

10. PROFESSIONAL LIABILITY INSURANCE

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

11. RELATED PARTIES

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

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

Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2006 and 2005, the sole shareholder of HVMG has entered into an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements do not include the assets, obligations, revenues or expenses of HVMG.

The Hospital entered into a 10 year non-cancelable lease with the Foundation for the Medical Arts Building. The Hospital is responsible for utilities, taxes, maintenance and insurance in addition to the rental payments of $6,256 per month. Future minimum rental payments for the years ending December 31 follows:

2007	$	75,075
2008		75,075
2009		56,306
Total minimum lease payments	$	206,456

12. SUBSEQUENT EVENTS

In 2007 the Hospital began an $800,000 patient room renovation project which will be finished in 2007.

CPAS / ADVISORS

blue

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

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

We have audited the financial statements of Hocking Valley Community Hospital as of and for the year ended December 31, 2006, and have issued our report thereon dated April 25, 2007. 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 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 material 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.

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. 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.*

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated April 25, 2007.

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

Blue & Co., LLC

April 25, 2007

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
JUNE 5, 2007

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