HOCKING VALLEY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

Auditor of State
Betty Montgomery

Board of Trustees
Hocking Valley Community Hospital

We have reviewed the Independent Auditor's Report of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., LLC, for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 2, 2004

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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, 2003 and 2002, 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, 2003 and 2002, 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.

As discussed in Note 1 to the financial statements, effective January 1, 2004, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, and GASB 37 – Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus, and GASB 38 – Certain Financial Disclosures.

Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated April 8, 2004, 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 grants. This 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 8, 2004

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, 2003 and 2002. Please read it in conjunction with the Hospital's financial statements, which begin on page 2. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a $504 or 5.6% increase in 2003.
- The Hospital reported operating gains $321 and $188 in 2003 and 2002, respectively.
- Total revenues increased from 2002 to 2003 by $2,563 or 11.4%.

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 Revenues, Expenses, 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 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 2. The Hospital’s net assets increased by $504 or 5.6% in 2003 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2003	2002	$ Change	% Change
Assets:				
Current assets	6,246	6,565	(319)	-4.9%
Capital assets, net	10,480	9,979	501	5.0%
Restricted and limited use assets	330	330	0	0.0%
Other noncurrent assets	251	187	64	34.2%
Total assets	17,307	17,061	246	1.4%
Liabilities				
Long - term obligations	4,333	4,151	182	4.4%
Current liabilities	3,472	3,912	(440)	-11.2%
Total liabilities	7,805	8,063	(258)	-3.2%
Net assets:				
Unrestricted	3,857	3,487	370	10.6%
Invested in capital assets, net of related debt	5,315	5,181	134	2.6%
Restricted by bond indenture agreement	330	330	0	0.0%
Total net assets	9,502	8,998	504	5.6%

A significant component of the change in the Hospital's assets is the increase in capital assets net of depreciation. Capital assets net of depreciation increased 5.0% or $501 from 2002 to 2003. Significant capital purchases in 2003 included new medical equipment (primarily imaging) as well as facility additions. These additions included a portion of the building that was formerly owned by the Department of Public Health.

Operating Results and Changes in the Hospital's Net Assets

In 2003, the Hospital's net assets increased by $504 or 5.6%, as shown in Table 2. This increase is made up of different components.

Table 2: Operating Results and Changes in Net Assets

	2003	2002	$ Change	% Change
Revenue:				
Net patient service revenue	24,861	22,296	2,565	11.5%
Other	115	117	(2)	-1.7%
Total operating revenue	24,976	22,413	2,563	11.4%
Expenses:				
Salaries and wages	9,325	8,539	786	9.2%
Employee benefits	2,436	2,374	62	2.6%
Supplies and other	5,181	4,706	475	10.1%
Professional fees and services	4,367	4,057	310	7.6%
Provision for bad debts	1,783	1,057	726	68.7%
Depreciation and amortization	1,032	999	33	3.3%
Insurance	228	177	51	28.8
Interest	303	317	(14)	(-4.4)%
Total expenses	24,655	22,226	2,429	10.9%
Operating income	321	187	134	71.6%
Non operating gains (losses)	183	675	(492)	-72.9%
Revenue and gains over expenses	504	862	(358)	-41.5%
Net assets: beginning of year	8,998	8,136	862	10.6%
Net assets: end of year	9,502	8,998	504	5.6%

Sources of Revenue

During 2003 the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of Gross revenue for patient services by payer, for the years ended December 31, 2003 and 2002, respectively.

	2003	**2002**
Payer Mix		
Medicare	44%	43%
Medicaid	16%	18%
Self-Pay	5%	5%
Commercial and other	35%	34%
	100%	100%

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

Operating Gains

The first component of the overall change in the Hospital's net assets is its operating income gain, generally the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. Operating Gains in 2003 increased by $134 or 71.6% from 2002.

The primary components of these increased operating gains are:

- An increase in the Hospital's total operating revenues in 2003 of $2,563 or 11.4% from 2002 due to a rate increase and growth in key areas. Some of the most significant areas of statistical growth in 2003 are:

  - Operating Room (cases) 128%
  - Radiology (procedures) 14%

The increase in the Hospital's total operating revenue in 2003 of $2,563 or 11.4% from 2002 is the result of a rate and volume increase. During 2003, the Hospital increased gross charge rates 6% compared to 2002. More importantly, the Hospital experienced real statistical growth in patient volume and procedures performed in the following areas:

Statistical Growth	**2003**	**2002**	**% Growth**
Med / surgical patient days	3,845	3,557	8.1%
Cardiovascular services	5,491	5,272	4.1%
Laboratory	121,453	107,688	12.8%
Pharmacy	384,879	352,200	9.3%
Operating room	2,638	1,156	128.2%
Radiology	25,334	22,313	13.5%
Anesthesia	918	826	11.1%

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 $530 were waived during 2003.

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

Non-operating Income (Expenses)

Non operating gains (losses) are the result of changes in the Hospital's investment gain (loss) and donations. The Hospital's investment income increased due to favorable changes in market values during 2003. The Hospital's investment income resulted in a gain of $144 in 2003 versus a loss of ($19) in 2002. The Hospital received contributions in 2003 of approximately $39 versus $694 in 2002.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating gains and non-operating income and expenses as discussed earlier. Non cash expenses such as depreciation and bad debt expense represent primary reasons the net cash from operating activities is greater than the change in net assets. The Hospital utilized cash in excess of amounts received from operating activities for capital and related financing activities in 2003.

Capital Asset and Debt Administration

Capital assets

At the end of 2003, the Hospital had $5,315 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 $1,243 and $1,427 during 2003 and 2002, respectively.

Debt

At year-end, the Hospital had $4,333 in bonds and capital lease obligations outstanding. In 2003, the Hospital purchased the Public Health Department portion of the Hospital's structure for $285 and entered into capital lease obligations of $887.

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, 2003 and 2002

ASSETS

	2003	2002
Current assets:		
Cash and cash equivalents	$ 1,076,416	$ 1,750,829
Short-term investments	181,853	155,036
Patient accounts receivable, less allowance for doubtful accounts of $148,000 in 2003 and $189,000 in 2002	4,769,050	4,403,310
Inventories	202,688	242,376
Prepaid expenses and other assets	16,490	13,988
Total current assets	6,246,497	6,565,539
Assest whose use is limited:		
Under bond indenture agreement	330,000	330,000
Property, plant and equipment, net	10,479,814	9,979,108
Other assets:		
Long-term investments	165,908	93,474
Other receivables	-	3,346
Deferred financing costs, net	85,429	89,838
Total other assets	251,337	186,658
Total assets	$ 17,307,648	$ 17,061,305

LIABILITIES AND NET ASSETS

	2003	2002
Current liabilities:		
Current portion of capital lease obligations	$ 507,651	$ 366,265
Current portion of long-term debt	323,500	280,000
Accounts payable and accrued expenses	878,149	1,379,298
Accrued salaries, wages and employee benefits	1,705,102	1,729,522
Third-party settlements	57,532	156,636
Total current liabilities	3,471,934	3,911,721
Capital lease obligations, less current portion	857,380	611,353
Long-term debt, less current portion	3,476,112	3,539,855
Total liabilities	7,805,426	8,062,929
Net assets:		
Unrestricted	3,857,051	3,486,741
Invested in capital assets, net of related debt	5,315,171	5,181,635
Restricted by bond indenture agreement	330,000	330,000
	9,502,222	8,998,376
Total liabilities and net assets	$ 17,307,648	$ 17,061,305

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2003 and 2002

	2003	2002
Revenues:		
Net patient service revenue	$ 24,861,647	$ 22,295,821
Other operating income	114,663	117,366
Total operating revenues	24,976,310	22,413,187
Operating expenses:		
Salaries and wages	9,324,700	8,538,411
Employee benefits	2,436,158	2,373,693
Supplies and other	5,180,577	4,706,343
Professional fees and services	4,367,850	4,057,260
Provision for bad debts	1,782,835	1,057,465
Depreciation and amortization	1,032,030	998,956
Insurance	227,838	176,638
Interest	303,637	316,916
Total expenses	24,655,625	22,225,682
Operating income	320,685	187,505
Nonoperating gains (losses):		
Investment income (losses)	144,395	(18,971)
Other	38,766	693,654
Total nonoperating gains (losses)	183,161	674,683
Revenues and gains over expenses	503,846	862,188
Net assets, beginning of year	8,998,376	8,136,188
Net assets, end of year	$ 9,502,222	$ 8,998,376

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 and 2002

	2003	2002
Operating activities:		
Cash received for patients and third party payors	$ 22,614,468	$ 21,727,286
Cash paid to employees for wages and benefits	(11,785,278)	(10,716,167)
Cash paid to vendors for goods and services	(10,240,228)	(8,970,474)
Other receipts, net	114,879	117,366
Net cash from operating activities	703,841	2,158,011
Capital and related financing activities:		
Repayment of long-term debt	(305,243)	(266,572)
Repayment of capital lease obligations	(499,854)	(359,914)
Issuance of long-term debt	285,000	-
Interest expense	(303,637)	(316,916)
Acquisition of property and equipment	(641,061)	(1,427,101)
Contributions	38,051	693,654
Net cash from capital and related financing activities	(1,426,744)	(1,676,849)
Investing activities:		
Change in investments, net	(99,251)	172,204
Investment income	144,395	(18,971)
Other receivables	3,346	12,353
Net cash from investing activities	48,490	165,586
Net change in cash and cash equivalents	(674,413)	646,748
Cash and cash equivalents:		
Beginning of year	1,750,829	1,104,081
End of year	$ 1,076,416	$ 1,750,829
Reconciliation of operating income to net cash from operating activities:		
Operating income	$ 320,685	$ 187,505
Interest expense considered capital financing activity	303,637	316,916
Adjustment to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,032,030	998,956
Bad debts	1,782,835	1,057,465
Changes in assets and liabilities:		
Patient accounts receivable	(2,148,075)	(942,668)
Inventories, prepaid expenses and other assets	37,186	(48,644)
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	(525,569)	214,348
Third-party settlements	(99,104)	374,133
Net cash from operating activities	$ 703,625	$ 2,158,011

Supplemental disclosure of cash flow information:
The Hospital entered into capital lease obligations in 2003 of $887,267.

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Hocking Valley Community Hospital (the Hospital), located in Hocking County, Logan, Ohio, is organized as a county hospital under provisions of the general statutes of the State of Ohio requiring no specific articles of incorporation. The organization is exempt from Federal income taxes. The Board of Trustees, appointed by the county commissioners and the probate and common pleas court judges, is charged with the management and operation of the Hospital, its finances and staff. The Hospital, which began operations in 1966, has a 61 bed acute care unit, a 30 bed skilled nursing unit and a 10 bed geriatric psychiatric unit. The Hospital is considered a component unit of Hocking County, Ohio and is included as a component unit in the general-purpose financial statements of Hocking County.

Changes in Accounting Principles

Effective January 1, 2004, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments as amended by GASB 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus and GASB 38, Certain Financial Statement Disclosures. GASB 34 establishes financial reporting standards for all state and local governments and related entities. The impact of this accounting change related to the format of the financial statements, presentation of net assets, the inclusion of management's discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the cash flow statement on the direct method.

Basis of Presentation

The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to Accounting Principles Generally Accepted in the United States (GAAP) for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to the extent that they do not contradict or conflict with GASB pronouncements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

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 $530,271 and $585,180 in 2003 and 2002, 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 2003 and 2002, approximately 44% and 43%, respectively, of the Hospital's total patient revenue was derived from Medicare payments while 16% and 18%, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

Assets Whose Use is Limited

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

Inventories

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

Property, Plant and Equipment

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

Deferred Financing Costs

Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2003 and 2002, was $29,083 and $24,674, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassifications

Certain reclassifications were made to the 2002 financial statements to conform to the 2003 presentation.

2. NET PATIENT SERVICE REVENUE

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

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

2. NET PATIENT SERVICE REVENUE (continued)

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

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

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2003 and 2002, are as follows:

	2003	2002
Gross patient service revenue	$ 40,786,183	$ 36,202,330
Less third-party allowances	15,924,536	13,906,509
Net patient service revenue	$ 24,861,647	$ 22,295,821

3. DEPOSITS AND INVESTMENTS

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

3. DEPOSITS AND INVESTMENTS (continued)

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

	December 31, 2002		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 1,750,829	$ 330,000	$ 248,510
Government securities	-	-	(42,248)
Mutual funds and equities	-	-	(51,226)
Star Ohio	(97,956)	-	-
Merrill Lynch cash management	(134,729)	-	-
Advest money market	(293,551)	-	-
Cash on hand	(750)	-	-
GASB Statement No. 3 deposits	$ 1,223,843	$ 330,000	$ 155,036

Deposits

At December 31, 2003 and 2002, the carrying amount of the Hospital’s bank deposits for all funds is $1,076,416 and $1,750,829 as compared to a bank balance of $1,514,286 and $1,890,547, 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, 2003 and 2002, $210,000 and $110,000 is covered by Federal insurance programs and $1,304,286 and $1,780,547, respectively, is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital’s name.

3. DEPOSITS AND INVESTMENTS (continued)

Investments

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

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

	December 31, 2003			
		Category		Carrying
	1	2	3	Amount
Government securities	$ -	$ -	$ 20,722	$ 20,722
Certificates of deposit	-	511,853	-	511,853
Mututal funds and equities	-	-	145,820	145,820
Total	$ -	$ 511,853	$ 166,542	$ 678,395

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

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

	12/31/2001	Additions	Retirements/ Transfers	12/31/2002
Land improvements	$ 243,666	$ 19,342	$ -	$ 263,008
Buildings and improvements	10,471,136	1,193,511	-	11,664,647
Equipment	10,059,329	214,248	-	10,273,577
Total capital assets	20,774,131	1,427,101	-	22,201,232
Less accumulated depreciation:				
Land improvements	159,536	16,506	-	176,042
Buildings and improvements	3,376,027	289,312	-	3,665,339
Equipment	7,699,056	681,687	-	8,380,743
Total accumulated depreciation	11,234,619	987,505	-	12,222,124
Capital assets, net	$ 9,539,512	$ 439,596	$ -	$ 9,979,108

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 2000 and with Medicaid through 1998. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2003 and 2002, 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, 2003 and 2002:

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

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

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

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

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

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

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

6. LONG-TERM DEBT AND LEASES (continued)

	12/31/2001	Additions	Payments	12/31/2002	Amount due within 1 year
1993 bonds, issued July 1, 1993	$ 1,730,000	$ -	$ 180,000	$ 1,550,000	$ 185,000
1999 bonds, issued March 1, 1999	2,430,000	-	95,000	2,335,000	95,000
Bond discount	(68,573)	-	(3,428)	(65,145)	-
Capital leases	1,337,532	-	359,914	977,618	366,265
	$ 5,428,959	$ -	$ 631,486	$ 4,797,473	$ 646,265

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

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

	December 31	
	2003	2002
Cost of equipment under capital lease	$ 3,445,560	$ 2,558,293
Accumulated amoritzation	1,943,432	1,492,033
Net carrying amount	$ 1,502,128	$ 1,066,260

6. LONG-TERM DEBT AND LEASES (continued)

Minimum payments on these obligations to maturity as of December 31, 2003 follows:

December 31,	Principal	Interest	Total
2004	$ 831,151	$ 206,684	$ 1,037,835
2005	719,235	184,189	903,424
2006	576,369	160,575	736,944
2007	563,100	135,605	698,705
2008	437,775	112,195	549,970
2009-2013	1,012,013	386,738	1,398,751
2014-2018	835,000	168,150	1,003,150
2019-2023	190,000	9,026	199,026
	$ 5,164,643	$ 1,363,162	$ 6,527,805

7. PENSION PLAN

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

Funding Policy

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

Year	Contribution
2003	$ 1,186,566
2002	1,106,423
2001	1,043,601

7. PENSION PLAN, continued

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2003 and 2002 employer contribution rates of 13.55% used to fund healthcare was 5.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

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

8. DEFERRED COMPENSATION

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

9. PROFESSIONAL LIABILITY INSURANCE

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

10. RELATED PARTIES

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

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

Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2002 and 2001, the sole shareholder of HVMG has entered into an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements do not include the assets, obligations, revenues or expenses of HVMG. During 2003 and 2002, the Hospital transferred $493,020 and $313,001 to HVMG. These transfers are reflected in the changes in fund balance.

10. RELATED PARTIES

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

2004		75,075
2005		75,075
2006		75,075
2007		75,075
Thereafter		131,381
Total minimum lease payments	$	431,681

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

April 8, 2004

Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL
Logan, Ohio

We have audited the financial statements of Hocking Valley Community Hospital (the Hospital), a component unit of Hocking County, Ohio, as of and for the year ended December 31, 2003, and have issued our report thereon dated April 8, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to the management of the Hospital in a separate letter dated April, 8, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Trustees, management, and the Auditor of State of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

Auditor of State
Betty Montgomery

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HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 15, 2004